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August 1994

THE BUSINESS OF CULTURE

The Report of the Advisory Committee
on a Cultural Industries
Sectoral Strategy
(ACCISS)



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Committee on a Cultural Industries Sectoral Strategy.

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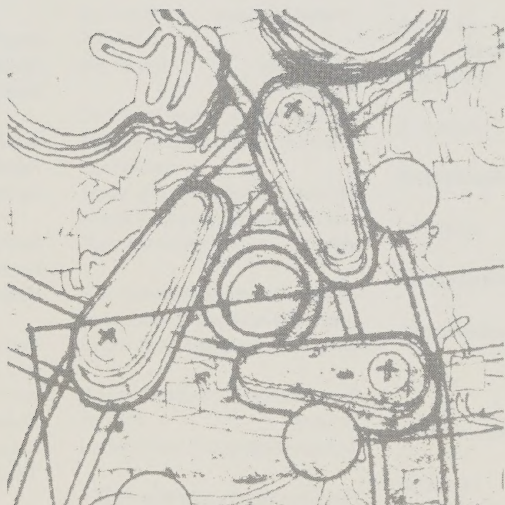
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THE
BUSINESS
OF
CULTURE



A STRATEGY FOR ONTARIO'S
CULTURAL INDUSTRIES

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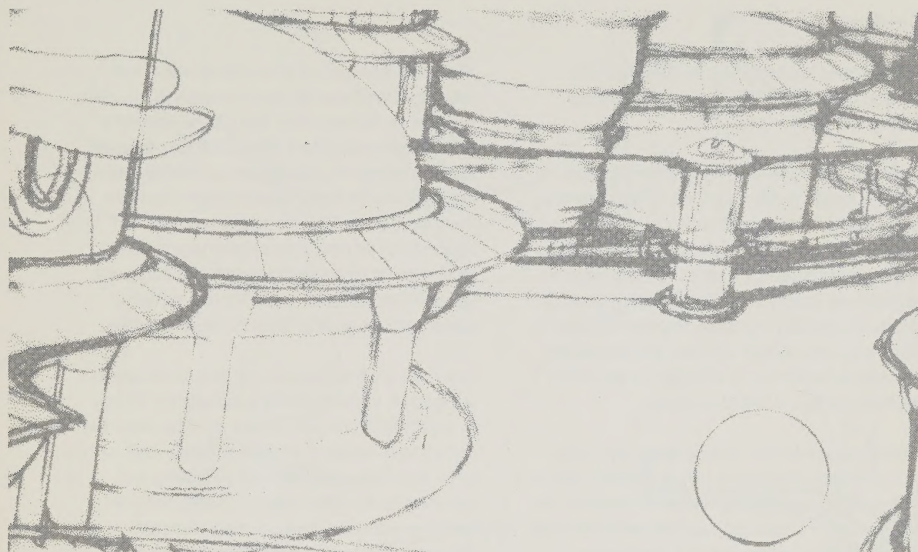
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The Honourable Anne Swarbrick
 Minister of Culture, Tourism and Recreation
 6th Floor
 77 Bloor Street West
 Toronto, Ontario
 M7A 2R9

Dear Minister:

We are pleased to submit to you the final report of the Advisory Committee for a Cultural Industries Sectoral Strategy (ACCISS).

In the past, the cultural industries have been assessed primarily in terms of their cultural value. Rarely have they been examined for their industrial or economic value. In our work, we examined Ontario's cultural sectors as industries and assessed them using the same criteria that would be applied to any industry, including productivity, the ability to create jobs, the ability to produce competitive products, the ability to gain market share and so on. We assessed their strengths and weaknesses as an industry as well as their ability to contribute to Ontario's economy.

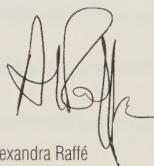
What we learned was both challenging and encouraging. ACCISS believes that Ontario's cultural industries represent a tremendous economic opportunity. Like all industries, they face some serious challenges — not the least of which are rapid technological change and a highly competitive environment. Yet they have the potential to play a key role in helping Ontario make the shift from a resource-based economy to an information-based economy. If the cultural industries can build on their existing strengths, become more competitive and invest in the skills and knowledge they will need for the future, they can create significant wealth.

Although we did not start by examining the industries in cultural terms, our analysis supported cultural imperatives. Within the industries, the greatest economic benefits were generated by Canadian-owned firms developing uniquely Canadian products. While we have always believed in culture as a way to express our identity, we learned that there is a strong market in Canada and a growing market abroad for Canadian cultural products.

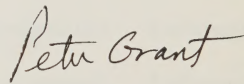
This report marks a critical stage in the development of Ontario's cultural industries. As you are aware, our cultural industries are relatively young. This initiative brought the different commercial cultural sectors — books, magazines, sound recordings, film, television and commercial theatre — together for the first time to discuss common issues. We would like to acknowledge the extraordinary dedication represented by the many hours of time a large number of people from the various sectors committed to this process. Because of that dedication, for the first time, we have a shared vision and goals for Ontario's cultural industries.

Ontario has good reason to focus on the economic potential of this sector. It has the potential to innovate. It is strongly technology based. The jobs it creates are highly skilled and highly paid — the type of employment Ontario needs for the future. Markets for cultural products are growing. And, because of our strengths, Ontario is uniquely positioned to be a leader in the development of new products and technologies and to make effective use of the information highways and other networks that will be the main distributors for cultural products in the future.

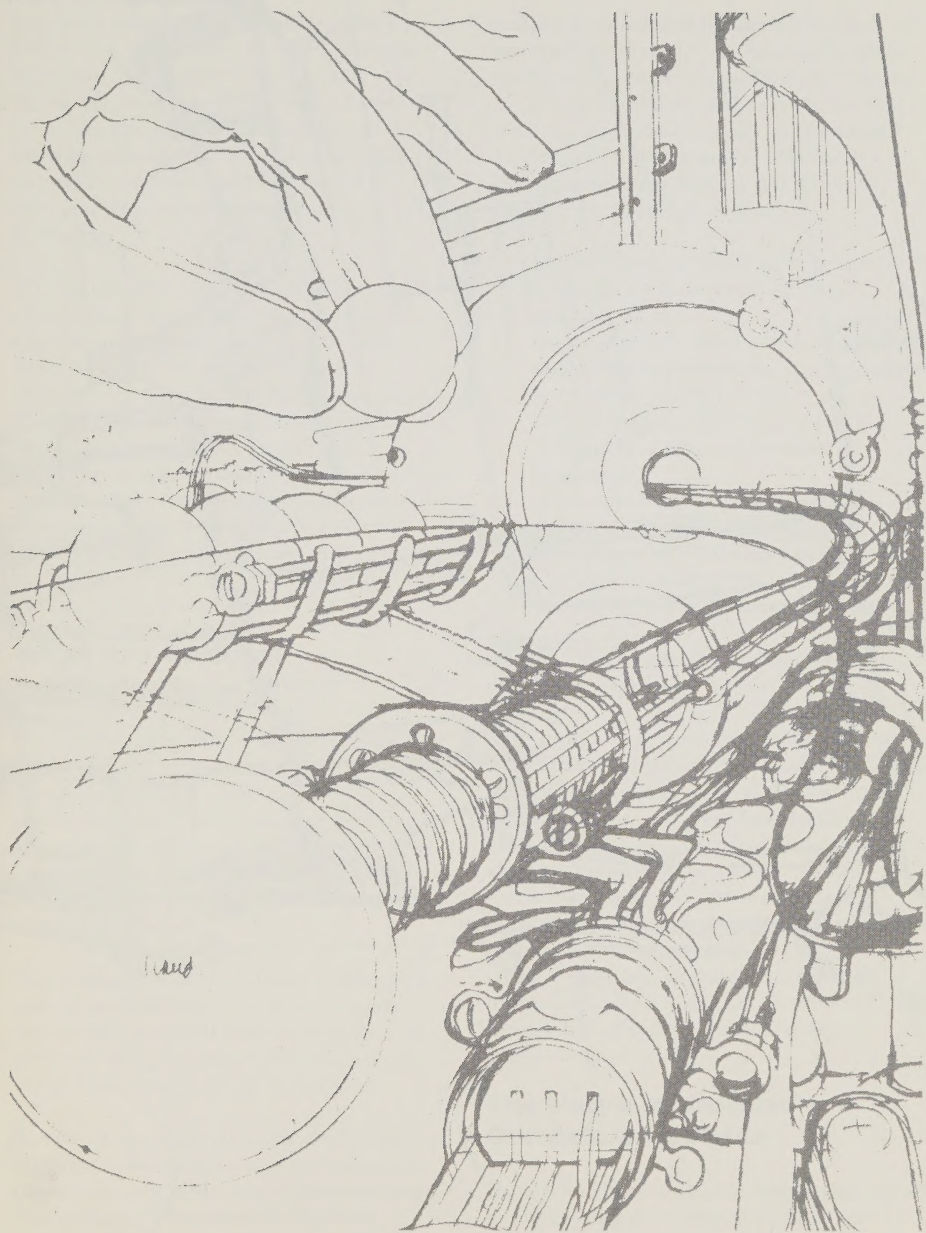
We would now urge the industry and government to build on the partnerships and momentum that have been created through the process of the study. This report provides a series of recommendations that, taken together, form a strategy for the cultural industries. ACCISS believes that by moving now to implement this strategy, Ontario can strengthen its cultural industries and reap economic and cultural benefits for all Ontarians.

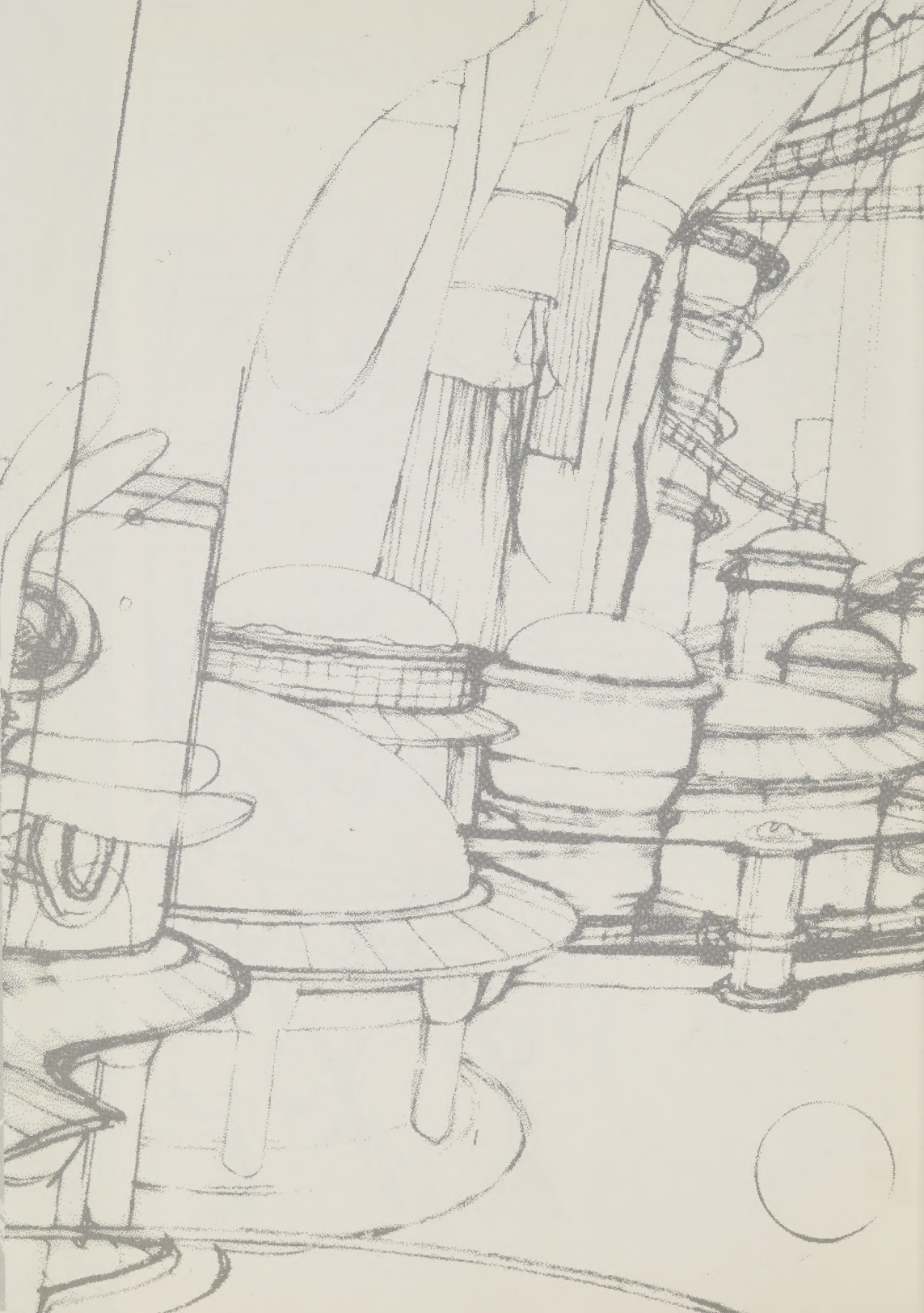


Alexandra Raffé



Peter Grant





Rarely do people think of culture as a business or an industry. Cultural products seem more intangible than the usual consumer goods which line store shelves. For many people, culture is something we nurture and support because of its potential to enrich our lives — not because of its potential to improve our economic wellbeing.

But culture does both. It adds richness and depth to our lives, giving people a way to express and share creativity. At the same time, it plays a vital role in Ontario's economy, creating wealth and employment. Our cultural industries not only help us exchange ideas, images, stories and experiences that are uniquely Canadian, but they also make a significant contribution to our economy. In 1992, Ontario's cultural industries generated revenues of \$3.2 billion and employed over 56 per cent of our national cultural workforce.

What are Cultural Industries?

Our culture is shaped by and reflected in the books, magazines, films, television programs, sound recordings and live theatre productions that Canadians buy, see or hear. When we talk about "cultural industries" we mean the firms and people that earn their income from creating and distributing these cultural products.

The products of these industries include not only physical articles such as books and videos, but also the creative or intellectual property that goes into a performance, or into a book, article, script or song.

A study of the "cultural industries" could arguably cover many sectors in addition to conventional publishing activities, television, film, audio and theatrical production,

including broadcasting, cable television, advertising, the visual arts, interactive video games, and even theme parks. Both to focus on content producers and to make the task more manageable, the government asked the Advisory Committee for a Cultural Industries Sectoral Strategy (ACCISS) to examine the following activities:

- the publication, distribution or sale of **books** either in print or machine readable form
- the publication, distribution or sale of **magazines or periodicals** either in print or machine readable form
- the production, distribution, sale or exhibition of **film or television programs**
- the production, distribution, sale or exhibition of **audio or video music recordings** as well as music in print or machine readable form
- the production of **commercial theatre**.

(Profiles which describe each sector are included in Appendix B.)

As a result, this report does not address such activities as newspaper publishing, advertising or the graphic and visual arts. Certain sectors — such as broadcasting, cable television and telecommunications — also play important roles in the cultural industries. While this report does not examine those sectors directly, it does discuss their role in distribution and exhibition of cultural products, and the part they will play in the development and distribution of new multimedia products, an emerging cultural sector.

The Value of Ontario's Cultural Industries

Canada's cultural industries play a vital role in our economy. In 1991, the Canadian

Arts and Culture

What is the relationship between this strategy for the cultural industries and the province's arts and not-for-profit sector? The word "industry" connotes something more than an individual artist at work. It describes firms operating in a commercial marketplace. To create products that Canadians want to buy at an affordable price, our cultural industries must be viable, productive and efficient. Our mandate in developing an economic strategy required us to focus primarily on the commercial aspects of cultural policy, and in particular on the business entities and people that create and distribute cultural products.

But the health of our cultural industries is inextricably linked to the flourishing of the arts in Canada. ACCISS acknowledges and appreciates the essential role that the arts sector plays in developing cultural products and in training and supporting the writers, choreographers, composers, dancers, producers, musicians, playwrights, filmmakers, designers, actors, technicians and others who work in Ontario's cultural industries. During their careers, cultural

workers move back and forth between the commercial and not-for-profit sectors. This flow of talent, skills and experience is of inestimable benefit to both.

Without a strong arts sector, Ontario cannot maintain or improve its cultural industries. Without the strong support of federal, provincial and local governments for artists, arts institutions and arts activities, Canada's arts sector would not have developed the way it has — and neither would Ontario's cultural industries.

This cultural industries strategy is based on the premise that the people and governments of Ontario and Canada must continue to value the arts for their own intrinsic worth as well as maintaining support for the not-for-profit sector. This will safeguard Canada's culture and ensure that our artists continue to create art that will enrich our lives. It will also nurture and develop the creativity that will ensure the long-term viability of Ontario's cultural industries.

cultural sectors contributed nearly \$15 billion to Canada's Gross Domestic Product — 2.44 per cent of the total. Between 1987 and 1991, the later years marked by recession, the cultural industries grew steadily. At a time when other industries saw their sales drop, revenues in the cultural industries increased by over 40 per cent, from \$5.3 billion to \$7.5 billion a year.

Ontario plays a strong role in the national cultural sector. Over 56 per cent of Canada's cultural workforce live and work in Ontario. Between 1988 and 1992, when total employment in the province fell by 3 per cent, the number of jobs in Ontario's cultural industries actually grew by 1 per cent. And, because these labour-intensive industries rely so heavily on innovation and new technologies, the jobs they create are

high-skill and high-value. Most cultural workers are well educated and able to adapt quickly to the demands of new technology and a changing marketplace. Our cultural industries are creating the kinds of well-paid, knowledge-based jobs Canada is trying to develop for the future.

The success of Ontario's cultural industries is due in large measure to the quality of work they produce. The hundreds of different companies involved in cultural industries have attracted and developed tremendous creative talent and ability. They have established world-class production facilities. They have helped Canada develop an international reputation in literature, film, music and theatre, which has flourished in the past decade.

Their success has positive and far-reaching economic impact. For example, every job created in book publishing creates 2.8 jobs elsewhere in the Ontario economy. A successful commercial theatre production or an event like the Toronto International Film Festival attracts large numbers of visitors who then spend money in Ontario on meals, accommodation and other products. Development of cultural industry products stimulate the economies of many small and large municipalities across the province.

Our books, magazine articles, sound recordings, films, videos and theatre productions help provide the shared values and traditions that form the basis of our communities and enrich our quality of life. Strong cultural industries in Canada and Ontario, particularly when led by Canadian-owned firms, help build our nation and define who we are as a people.

Ontario's cultural industries have an added value that cannot be measured solely in economic terms — in revenues, jobs and

balance of trade. These industries are stewards of our culture, the means by which we share ideas, exchange information, and develop and sustain our cultural identity. These industries provide the opportunity for Canadian talent and creativity to be seen and heard.

This is particularly true of the Canadian-owned firms active in Ontario's cultural industries. Four out of every five books by Canadians are published by Canadian-owned companies. Over 79 per cent of recordings featuring Canadian artists are produced by Canadian-owned companies. And virtually all Canadian films and Canadian television programs are produced by Canadian-owned companies.

While the firms in our cultural industries exhibit both strengths and weaknesses, the future for the sector looks very promising, provided a coherent strategy can be implemented. Ontario's cultural industries have the strategic characteristics cited in the government's Industrial Policy Framework, which are needed to compete in the global economy, including the potential to: be innovative, raise skill levels, increase our technological capabilities, establish home bases in Ontario, develop linkages and networks, and build on our international capability. It is for both their economic and social value that the cultural industries have been targeted as a key competitive sector — a place where Ontario should invest for the future.

Pressures on Our Cultural Industries

Despite Ontario's cultural industries' past success and potential to grow and prosper, they face many challenges in a changing marketplace. The global market for cultural products is highly competitive, and Canada

is a relatively small player in that market. Even more significant, the industry is facing a period of technological change that will reshape cultural products themselves as well as the way they are marketed and distributed.

While Ontario has always played a strong role in Canada's cultural industries and has a solid base on which to build, its position is slipping. The companies based in Ontario have continued to grow over the past five years, but at a slower pace than those in other provinces. In 1986, sixty-two per cent of the people employed in Canada's cultural industries worked in Ontario. By 1992, the percentage had dropped to 56. Until 1988, Ontario's share of Canada's film production hovered around 50 per cent. Since then, it has dropped to 35 per cent.

Ontario's ability to compete in the increasingly global and rapidly changing market for cultural products will be affected by:

- the realities of the marketplace, including:
 - a small domestic market dominated to a great extent by our neighbour to the south
 - a large number of small companies that may not be able to compete successfully with multinational conglomerates for international markets
 - the growing trend to form global information/entertainment conglomerates where companies own or control several sources of production and then use their integrated resources and networks to distribute their varied products

■ technology, including:

- the growing convergence or blending among the various cultural industries and between the cultural industries and other sectors (such as telecommunications and computers)
- the development of interactive multimedia products
- the development of information highways or networks that will deliver cultural products, such as movies and music, directly to Canadian homes
- the need to continually adapt, develop new skills and invest in new equipment to keep up with new technologies and formats
- the ability to regulate or control the new delivery systems and safeguard Canada's cultural identity

■ the operating environment, including:

- the impact of Canadian laws and regulations designed to safeguard Canadian intellectual property
- public policies that affect the cultural industries' ability to compete within Canada and abroad
- the role of government in funding and supporting culture and the arts during tough economic times.

Specific opportunities and challenges facing each of our cultural industries are described by sector in Appendix B.

To respond creatively to market pressures and to take advantage of the opportunities that will come with change, Ontario's cultural industries, led by Canadian-owned firms, must be prepared to build on their strengths, to adapt and to act.

Developing a Cultural Industries Strategy

In the past, each sector within the industry — book publishing, magazines, music, film and video, and commercial theatre — tended to work independently and develop its own solutions for its own problems. Government programs have also tended to be sector specific. As the lines between the sectors continue to blur — as books lead to movies and sound recordings, and as a new multimedia industry emerges, borrowing from all sectors to create new products — the sectors have more in common. **It is time to act together.** Ontario's cultural industries need a comprehensive, coordinated strategy that will allow the sector to anticipate change and plan, with government, for the future.

This report lays out a strategy developed by the Advisory Committee for a Cultural Industries Sectoral Strategy. The committee included representatives from labour organizations and business leaders in Ontario's cultural industries and related sectors.

ACCISS was asked to:

- develop a comprehensive forward-looking strategy for growth of the cultural industries in Ontario
- identify industry initiatives that will improve the sector's competitive position and enhance its role as a conduit of cultural expression
- identify benchmarks or indicators of sector performance and the sector's strengths, weaknesses, opportunities and threats
- develop a revitalized role for government in the sector, including establishing more effective public policies

- strengthen the working relationships among all stakeholders and create new ongoing partnerships to deal with common concerns
- find ways to make better use of resources and research capabilities and identify areas that need more research and policy development
- establish mechanisms for updating the sectoral strategy as economic, social and technological changes occur.

The extensive process of consultation and analysis took almost a year. Appendix C provides detail on the process for developing the strategy. It was the first time that many people in the cultural industries had been asked to look beyond the particular problems and issues of their own sector. Through this exercise, they were encouraged to abandon old sectoral positions and begin to think as part of a larger industry sector that could work together to resolve common problems and plan for the future.

The strategy that ACCISS recommends is designed to provide the structures, policies and support the cultural industries' need to:

- improve competitiveness
- grow and prosper in the 1990s and into the 21st century
- continue to be a vital part of a healthy Ontario economy and a strong Canadian society.

ACCISS believes that, if industry and government work together, the targets it has set are realistic and achievable.

Linkages to Other Sector Strategies



As ACCISS was developing a strategy for the cultural industries, other groups were also working to develop strategies for the telecommunications, computing and design industries. Because of the rapid technological changes that are taking place in our environment, these sectors will all play an integral role in helping Canada shift from a resource-based to an information-based economy. Our cultural industries will provide the information that will be carried on the information highways now being developed by the other sectors. And these new technologies will, in turn, affect how the cultural

industries develop and distribute their products.

Culture is also inextricably linked with tourism. Each year, a significant number of people are drawn to Ontario because of our theatre productions, live music, museums, art galleries and other cultural events. For this reason, the province's tourism and cultural industries strategies must also be closely linked.

In its work, ACCISS made every effort to develop a strategy that will support other related initiatives.

Content of the Report

This document, which is divided into four chapters, lays out the steps that ACCISS believes industry and government must take to strengthen our cultural industries:

- Chapter 1 sets out the vision and strategic goals for the industry, and establishes performance targets.
- Chapter 2 recommends ways to make Ontario's cultural industries more effective in the marketplace;

- Chapter 3 lists the steps required to position our cultural industries for the future; and,
- Chapter 4 recommends changes to the operating environment that will support and strengthen the cultural industries.

Throughout this report, ACCISS offers a series of recommendations, plus a number of tactics industry and government can use to put the recommendations into action.

CHAPTER 1

A VISION FOR ONTARIO'S CULTURAL INDUSTRIES IN THE 1990S AND BEYOND

Ontario is home to a broad spectrum of cultural industries that have enormous potential for growth. The people and companies that make up these industries have made a considerable contribution to the wealth of the province in the past, and will continue to do so in the future. With the shift from a resource-based to an information-based economy, with the trend from national to global markets, with the rapid changes in technology, cultural products, and distribution systems, ACCISS believes Ontario's cultural industries have an opportunity to play an even stronger, more effective role within the provincial economy.

Early in the process, ACCISS developed a common vision for Ontario's cultural industries.

Vision

Building on Ontario's communications infrastructure, its vast intellectual capital and its broad cultural diversity, our cultural industries will be a driving force in the information economy and the development and sale of entertainment and information products.

This means that:

- Customers will be offered, at competitive prices, high quality products that inform, entertain and educate.
- Shareholders will receive a satisfactory return on their investment.
- Creators will be fairly compensated for creative expression.
- Entrepreneurs will work in an open, accessible marketplace.
- Government initiatives will help the cultural industries become more competitive.

To achieve the vision, Ontario's cultural industries will:

- Create high quality products that will be competitive in the domestic and international markets;
- Strengthen domestic demand by improving access to our cultural products;
- Increase profitability of cultural industries through greater international market share;
- Create strong and financially viable Canadian-owned, Ontario-based firms;
- Become a recognized world-wide supplier of multimedia products;
- Train our workforce to master entrepreneurial skills and emerging technologies, as well as their art;
- Build on the connection between culture and tourism;
- Influence regulatory frameworks to ensure they support cultural production and improve the industry's competitiveness;
- Encourage government financial assistance when it leads to improved competitiveness.

In achieving these objectives, Ontario's cultural diversity is an asset. There has been a tremendous growth in culturally diverse communities in the last several decades. In addition, the Franco-Ontarian and Native/First Nations communities continue to grow and develop their own cultural infrastructure. The work of these communities is reflected in the ever broadening range of cultural products and experiences enjoyed by Ontarians. Ontario's cultural industries must work to reflect the richness of our diversity. To that end, the ACCISS strategy:

- strongly recognizes the market potential of culturally diverse products

- encourages initiatives that will broaden the audience for cultural products
- supports initiatives that will encourage people from all cultures to become involved in all aspects of the cultural industries, including training, financing, production, distribution, export and regulation of cultural products.

ACCISS also acknowledges that cultural industries exist throughout Ontario's regions and are a part of the scope of the provincial infrastructure. These companies represent an important part of the export potential of the sector and provide jobs for local economies. The products they create also give voice to regional perspective and experience.

The recommendations of the cultural industries strategy are intended to address commercially viable initiatives from all of Ontario's diverse cultural communities and regions.

Strategic Goals

ACCISS believes that Ontario's cultural industries, together with government, must pursue three strategic goals if these industries are to fulfil their economic potential, realize their vision and achieve their objectives.

GOAL #1:

Increase Canadian-owned, Ontario-based producers' share of the international and domestic markets for entertainment and information products.

GOAL #2:

Develop an industry/government framework that will enable Ontario's cultural industries to take a lead role in developing new multimedia products and in using new systems to distribute traditional cultural products.

GOAL #3:

Create a stable, equitable operating environment for Canadian cultural industries in Ontario.

The recommendations in the following chapters will affect the industry in different ways. Some that deal with effective initiatives already in place will help maintain the health of Ontario's cultural industries. Others will provide the tools the cultural industries will need to prosper and grow in the years to come.

STRATEGIC FRAMEWORK

Vision

Building on Ontario's communication infrastructure, its vast intellectual capital and its broad cultural diversity, our cultural industries will be a driving force in the information economy and the development and sale of entertainment and information products.

1. Becoming more effective in the marketplace:

Goal: Increase Canadian-owned, Ontario-based producers' share of the international and domestic markets for entertainment and information products.

Objectives:

- Invest in people
- Improve access to financing
- Gather better market information and consumer intelligence
- Develop a competitive edge in the domestic market
- Expand sales to export markets
- Solidify Ontario's status as a cultural and production centre

2. Positioning for the future:

Goal: Develop an industry/government framework that will enable Ontario's cultural industries to take a lead role in developing new multimedia products and in using new systems to distribute traditional cultural products.

Objectives:

- Strengthen links within cultural industries and between related sectors
- Develop a co-ordinated industrial policy
- Maximize the effectiveness of current support programs

3. Aligning the operating environment:

Goal: Create a stable, equitable operating environment for Canadian cultural industries in Ontario.

Objectives:

- Enact copyright reform
- Implement fair tax
- Implement equitable trade rules
- Address foreign investment policies
- Establish government procurement policies
- Improve Canadian content mechanisms
- Stabilize and strengthen relationships with government



Performance Objectives

As part of its task, ACCISS developed performance targets for the industry — increases in sales and revenues the cultural industries could create if they implemented a comprehensive strategy.

Job creation and economic activity estimates were calculated utilizing the economic impact models developed by the research firm DRI Canada for the ACCISS report. DRI specifically developed input/output models for film and television, sound recording, and book and magazine publishing industries. Estimates were made for commercial theatre utilizing broader Statistics Canada input/output models.

If Ontario's cultural industries achieve these performance objectives, they will create over 6,000 jobs directly within the industry, as well as an additional 14,000 jobs in Ontario with an estimated economic output level of \$2.4 billion by 1999. (An explanation as to how these specific outcomes were calculated is found in Appendix E.)

These very impressive levels reflect the economic importance that the cultural industries play in the Ontario economy and the significant boost that they can provide. ACCISS feels that the recommendations in this report represent a blueprint for achieving these performance targets.

PERFORMANCE OBJECTIVES*

SECTOR	TARGET OBJECTIVES (completion by 1999)	FORECAST OUTCOME			
		Direct New Jobs in Sector	Total New Jobs in Ontario	Increase in Value- Added (in millions of dollars)	Increase in Economic Output
Book Publishing	Increase publishers' share of the domestic market from 30% to 45%, or \$193M.	1,124	5,149	\$338.0	\$617.6
	Increase exports from \$42M to \$100M per year.	162	928	\$60.9	\$111.4
Magazine Publishing	Increase advertising revenues from 6%, or \$540M, to 7.1%, or \$640M, of total advertising spending per year.	472	3,102	\$148.3	\$222.6
	Increase circulation revenues by 25%, from \$181M to \$227.3M.	205	1,349	\$64.5	\$96.7
Sound Recording	Increase domestic revenue of companies by 5% per year, from \$139M to \$177.4M.	282	755	\$48.0	\$103.7
	Increase international sales by firms from \$125M (1991) to \$201.3M. (10% increase per year)	560	1,501	\$95.4	\$206.0
Film/TV Production	Increase Canadian production revenue from \$350M to \$450M.	1,071	2,115	\$110.0	\$330.0
	Increase firms' share of domestic market from 43% to 45%.	400	683	\$41.0	\$123.0
	Increase percentage of firms' film and television sales from exports from 20% to 24%.	246	422	\$25.3	\$75.9
	Increase revenues of distributors from 53% to 65% while increasing total distribution revenue from \$450M to \$600M.	250	1,320	\$79.2	\$237.6
Commercial Theatre	Increase total revenues from \$200M to \$300M.	1,333	3,333	\$200.0	\$310.0
TOTAL IMPACT ON CULTURAL INDUSTRIES SECTOR		6,105	20,657	\$1,210.6	\$2,434.5

* Performance objectives apply to Canadian-owned, Ontario-based cultural industries.

CHAPTER 2**BECOMING MORE EFFECTIVE
IN THE MARKETPLACE**

GOAL #1:

Increase Canadian-owned, Ontario-based producers' share of the domestic and international markets for entertainment and information products.

Ontario's cultural industries have achieved some market success in Canada and abroad. Our cultural industries have developed a solid base in the domestic market on which to build; some sectors have made significant gains over the past few years in export markets. In virtually every sector, we can point to some remarkable economic achievements. This success is due, in large measure, to the quality of our cultural products, the growing trend for Canadian creators to stay in Canada, and the critical acclaim that Canadian creators have received at home and abroad. There is a market for high-quality Canadian cultural products in Canada and in other countries.

Yet our cultural industries are not as competitive as they could be, nor as competitive as they will have to be to prosper in the future. At home, in virtually every cultural industry sector, foreign products have a greater share of the domestic market. Abroad, Canadian cultural products make up a very small percentage of other countries' markets.

Canadian cultural products face significant obstacles in competing head-to-head with foreign, mainly U.S., books, magazines, films or sound recordings. U.S. products tend to be well-financed, lavishly produced and aggressively marketed around the world. Canadian products, on the other hand, tend to be developed by smaller companies that do not have comparable financing or distribution networks. Because Ontario book, magazine, film and sound recording

producers work in a small domestic market, their production costs tend to be significantly higher than those of our competitors in the U.S. In general, marketing budgets are smaller for Canadian companies, they have less access to good marketing information, and they must often rely on distribution systems dominated by foreign products. As a smaller market, Canada offers fewer opportunities for creators to develop their skills. As a result, many Canadian creators still leave Canada to develop their talent.

In pursuing Goal #1, industry and government must:

1. invest in people
2. improve access to financing
3. gather better market information and consumer intelligence
4. develop a competitive edge in the domestic market
5. take specific steps to expand sales to export markets
6. solidify Ontario's status as a cultural and production centre.

Invest In People

The value of the cultural industries is in the people involved and their creativity. The individual creator is at the core of the production process. Without that creation, there is nothing to publish, record, stage, or film. To nurture and develop the industry, Ontario must nurture and develop its creators and provide the financial security and the education and training they need to produce quality work and upgrade their skills to keep pace with technological change and emerging media.

To develop and support a highly skilled cultural workforce, and to invest in the people who will create our cultural products,

ACCISS recommends that industry and government work together to establish a comprehensive human resources strategy for the cultural industries sector. This would include:

- addressing labour issues to ensure that cultural workers and their employers can create and market their products as part of a stable and mutually supportive partnership, and
- investing in training the people who create and produce the quality products that allows the industries to be competitive.

Address Labour Issues

Cultural workers often face more uncertainty than the more traditional categories of workers. Many are self-employed and work on projects when and as opportunities arise. In such cases, their income is not predictable, and is often lower than others who have the same level of education. Self-employed creators are not eligible to contribute to unemployment insurance or draw on it when they are between projects and not earning income.

Furthermore, self-employed creators do not fall under the **Ontario Labour Relations Act** and their associations are not certified unions. Thus creators and their associations do not have formal collective bargaining arrangements they can use to negotiate rates or conditions of employment. The agreements that do exist are based on employers voluntarily recognizing the representative nature of the artist associations.

Creator groups have been lobbying provincial and federal governments for collective bargaining, employment standards, and social benefits that will provide the living and working conditions which will allow them the economic stability to pursue their craft.

As part of its Status of the Artist bill, passed in June 1992, the federal government looked at the full range of social and economic issues that affect creators in our society, including arts and education, training, living and work space, pensions and other benefits, tax status, employment standards and labour relations. That bill:

- recognized the important role that artists play in society and the unique manner in which they undertake their work;
- established the Canadian Council for the Status of the Artist to advise the Minister of Heritage; and,
- established the Canadian Artists and Producers Professional Relations Tribunal (CAPPRT).

CAPPRT will develop the rules to govern professional relations between artists and producers working in activities that are under federal jurisdiction (e.g., broadcasting, the National Arts Centre, the National Film Board). CAPPRT will certify the organizations involved in collective bargaining and intervene, when asked, to mediate or arbitrate labour disputes within the industry. But CAPPRT and other aspects of the legislation apply only to artists and producers working in areas under federal jurisdiction. In most cases, labour relations are a provincial responsibility.

ACCISS recommends that:

RECOMMENDATION 1

The Ministry of Labour, in consultation with the Ministry of Culture, Tourism and Recreation and the cultural sector, establish a formal labour relations framework for self-employed cultural workers in Ontario.

- As part of that framework, the Ontario government recognize existing collective bargaining agreements in areas of provincial jurisdiction.
- The Ministry of Labour and the Ministry of Culture, Tourism and Recreation begin discussions with the federal government about using the existing federal tribunal for artists' labour issues (CAPRT) to administer a new labour relations framework for self-employed cultural workers in Ontario.

Invest in Training

If Ontario is to achieve its economic potential in the cultural industries, it must invest in training the people who will create and produce the quality product that will allow us to be competitive. In today's rapidly changing economy, industries need a highly trained, adaptable workforce in order to grow. The cultural industries have such a workforce, including creators, and those who develop creative products, such as producers, technicians, stage managers, editors and administrative staff, as well as the entrepreneurs who make the productions possible. As Ontario's economy moves more to knowledge-based, service-oriented activities, the cultural sector and its workforce must continue to develop and grow.

The Cultural Labour Force Project

In January 1992, the cultural sector and Employment and Immigration Canada announced the Cultural Labour Force Project, a collaborative effort that will lead to an integrated and comprehensive database on people working in the cultural sector. Members of the cultural workforce have been contacted, and the data is now being collected. This is the first cooperative project to produce baseline data about people working in all areas of the cultural industries.

In addition, Statistics Canada's Cultural Statistics Program conducts 12 annual surveys with companies or institutions to collect information about the financial status, employment levels and types of services and products created within the cultural industries.

Despite the obvious importance of ongoing training and lifelong learning, the cultural industries have not, with the exception of the film and television sector, been sufficiently able to plan for developing and training Ontario's cultural workforce for the future. For example:

- Those working in the book and magazine sectors have access to relatively little formal training in publishing, new technology, business and financial skills or circulation.
- Many people enter the music industry with very little formal training for their tasks. With advances in technology and greater competition within the business, those in the industry will need on-going

professional development and skills upgrading.

- Many actors, producers and technicians receive their early training and experience through their work in not-for-profit theatre and this will likely continue. With technological changes and more elaborate set designs and staging, they need ongoing training/upgrading.

The nature of the industry demands that attention be given to less formal forms of training, such as apprenticeship and mentoring programs. In many cases, the number of students seeking training in cultural skills is so small that universities or colleges can't offer cost-effective programs. In addition, many of the necessary skills are more practical than theoretical, and cannot be learned solely in a classroom setting. Most cultural workers do gain many of their skills through a kind of informal mentor system, but many firms are too small to give time to apprenticeship or mentor programs.

Both the federal and the Ontario governments have developed sector specific training initiatives designed to improve skills and encourage more private sector investment in training. The federal government established the Canadian Labour Force Development Board (CLFDB) to advise on training and adjustment priorities, and Ontario has established the Ontario Training and Adjustment Board (OTAB), which is made up of employers, educators, workers and social action groups, to coordinate and consolidate all provincial training and skills development programs.

To date, however, government-sponsored training programs have been oriented more toward traditional industrial sectors with more structured labour-management relations than is the case with cultural

industries. Most of these training programs are delivered by employers. With some exceptions, cultural industries have a high percentage of independent or self-employed contractors and smaller production units so it is difficult for them to get access to these training opportunities.

The not-for-profit sector also plays a key role in developing creators and training the cultural industries workforce. Most creators, producers, directors, technicians and actors receive their initial experience and training in the not-for-profit sector and, throughout their careers, will move back and forth between the two sectors, gaining skills and knowledge from both. The integral part the arts sector plays in training should be recognized and supported.

Industry and government can take several specific steps to help develop the cultural workforce and improve training programs. For example, it was suggested that:

- industry should give more emphasis to workplace-based training and encourage continuous improvement and innovation
- government could adapt the criteria for public training programs to make them more accessible to cultural workers
- industry and government could assess both short- and long-term training needs, evaluate the ability of existing programs to meet those needs and restructure programs
- the commercial cultural industries could enter into training partnerships with the not-for-profit sectors
- labour organizations within the cultural industries could design apprenticeship programs to meet present and future needs.

There has been an effort to establish a sectoral training council in Ontario for culture that would, as part of its mandate, advise on training needs. ACCISS supports the development of the council, provided it meets OTAB's criteria and would be recognized as the industry's representative body. In addition, to help implement a comprehensive human resource strategy, ACCISS recommends that:

RECOMMENDATION 2

Industry and Ministry of Culture, Tourism and Recreation work with Ontario Training and Adjustment Board and the provincial sectoral training council for culture to establish a comprehensive training strategy for cultural workers.

- Focus in particular on labour- or association-sponsored apprenticeship and mentorship programs and highlight adaptability to new technologies and business skills development.
- The provincial government urge the federal Ministers of Finance and Human Resources Development to establish new criteria or status for self-employed cultural workers to enable them to access existing federal training programs and funds.

Improve Access to Financing

The business climate for the cultural industries in Ontario is a difficult one. Cultural products — books, magazines, sound recordings, films, television programs and theatre productions — are expensive to produce. Many banks and investors are uncomfortable with recognizing the value of intangible assets such as creative and intellectual property rights. The recent economic recession, changing markets, high taxes, and uncertain government funding all affect sales and profits. Although many firms have proven their economic viability, most Ontario cultural firms are small and under-capitalized, and they often have difficulty getting funding from traditional sources. Some of Ontario's cultural firms have serious financing and cash flow problems.

In spite of these problems, the goal of Ontario's cultural industries is to be competitive and commercially viable and to attract investment based on the quality of their products and their ability to manage their operations effectively.

Ontario's cultural industries have five main sources of financing:

- private investment
- financial institutions
- government initiatives that promote investment in the cultural industries
- government initiatives that promote private investment in small to mid-sized Canadian-owned businesses of all kinds
- government assistance, grant and subsidy programs

To ensure the cultural industries have better and more consistent access to financing, industry and government must take several

key steps to capitalize on existing sources of funding and to develop new ones.

Encourage Private Investment

As in any industry, people like to invest in success and in companies with a proven track record. Profitable firms, such as Alliance Communications Corp., Atlantis Communications Inc., Live Entertainment of Canada Inc., Malofilm Distribution, Nelvana Ltd., and Paragon Entertainment Corp., have successfully raised capital through public stock offerings. However, less known or proven companies will likely continue to have trouble raising capital from the banking and venture capital sectors because:

- they lack collateral to guarantee a loan
- they may not have the necessary business and management skills that lenders expect
- lenders/investors are not knowledgeable about the cultural industries, these companies or their potential, particularly the value of intellectual property
- they may not have business plans calling for the sums of capital (usually \$1 million or more) that are the minimum investment thresholds for institutional investors and venture capital firms

These problems are not unique to the cultural industries. The computer sector strategy identified the same weaknesses in computing companies and recommended an Ontario Computing Sector Resource Facility that would "support the development needs of the sector's small to mid-sized firms." The facility would provide "information, access to knowledgeable individuals, advice, training and other resources."

To attract investment, cultural industries must develop better financial and management skills. They must also do a better job of identifying and understanding potential investors and developing effective business plans. The demonstration of these skills is the key factor in determining whether or not an investor will provide capital to a particular project.

With the growing number of institutional investors looking for opportunities and the recent success and profitability of many Canadian cultural products, the cultural industries may find there is more private money available, if they have the skill to attract it.

ACCISS recommends:

RECOMMENDATION 3

The cultural industries, labour organizations and the Ontario Training and Adjustment Board work together to develop training initiatives to improve business, marketing and entrepreneurial skills in the industry.

- Explore links with the proposed Computing Sector Resource Facility, to support the development needs of the cultural industries' small to mid-sized firms, including the development of training programs on how to utilize various sources of capital, attract investors and improve financial planning skills.
- Take the initiative to educate banks about the value of intellectual properties and to help develop appropriate models for the multi-stage financing of production in the cultural industries sector.

Take Advantage of Government Initiatives to Promote Private Investment in Small to Mid-Sized Canadian-owned Businesses

Governments have long recognized the problems that small to mid-sized companies face raising capital and have developed a range of programs that either offer tax incentives to encourage investment or attempt to reduce the investment risk. A number of these programs are potential sources of capital for the cultural industries, including:

- Bill 40, the Ontario Community Economic Development Initiative, allows local organizations to form community investment share corporations, which sell preferred shares to local investors and then invest in local businesses. Under the program, the province guarantees to protect the shareholders from losing their initial investment.
- Bill 150, the Ontario Labour Sponsored Venture Capital Corporations, allows employee organizations or unions to form investment pools. Under this legislation, the Directors' Guild of Canada recently launched its Labour Sponsored Venture Capital Pool to invest in the entertainment industry.

Although these and other similar programs are not designed specifically for cultural industries, they should be available to groups for investing in small and mid-sized cultural firms. To ensure that cultural firms are able to take advantage of all government initiatives that promote investment, ACCISS recommends:

RECOMMENDATION 4

The Ministry of Culture, Tourism and Recreation, together with industry, urge other provincial and federal government departments to ensure that the cultural industries have access to all incentive programs designed to support small business and industrial development in Ontario and Canada.

ACCISS also noted that, although various government programs and incentives are available, cultural firms often have trouble finding and using them. To take advantage of these programs and the financing they offer, industry must develop a better understanding of how they work and how to apply for them. To help cultural firms use these sources of investment more effectively, either the industry or government could provide a one-stop service for firms looking for information on government incentives.

The Ontario Lead Investment Fund (OLIF) is a \$70 million venture capital pool created in 1994 by the Province of Ontario (40 per cent) and financial institutions (60 per cent). Designed to increase investment in the emerging economy, OLIF intends to encourage long-term equity investments in innovative growth companies, particularly knowledge-based firms, and link new pools of capital with people and firms who have

expertise in certain emerging sectors. OLIF will be jointly run by all of its investors with no single institution, including the government, holding controlling interest. OLIF will be the lead investor in a number of individual "Expert Investment Corporations" (EICs) formed to invest in certain types of small and mid-sized knowledge-based growth firms.

ACCISS believes that OLIF could be useful in attracting investment to the cultural industries and recommends:

RECOMMENDATION 5

Cultural firms work with the Ministry of Culture, Tourism and Recreation to determine the feasibility of establishing an Expert Investment Corporation for the cultural industries under the Ontario Lead Investment Fund.

Strengthen Government Initiatives to Promote Investment in the Cultural Industries

The federal and provincial governments have established several programs designed specifically to encourage investment in the cultural industries, such as the Ontario Film Investment Program (OFIP), the federal Capital Cost Allowance for the film industry and the Ontario Book Publishers Assistance Program. The value of these programs is that they use various incentives to reduce some of the risk involved in investing in the cultural industries.

In the process of developing this strategy, ACCISS assessed the various programs and their ability to attract investment and to

stimulate the creation of high quality, marketable cultural products. ACCISS determined that, of the various programs, OFIP is the most effective. Administered by the Ontario Film Development Corporation, OFIP gives people who invest in Ontario-based television and film productions rebates ranging from 15 to 25 per cent on their investment. Over the first 3 years, OFIP commitments of \$44 million have helped lever investment totalling over \$338 million in 100 different film and television projects — investment that probably would not have occurred at these levels without the OFIP incentive.

While this program has significantly contributed to the Ontario film and television industry, it is still not a permanent part of the OFDC's budget allocation and is due to expire at the end of the 1994/95 fiscal year. The uncertainty associated with OFIP has caused a great deal of concern for the film industry, and its discontinuation would adversely affect film and television production in Ontario.

OFIP works for the government as well as the industry. Evaluation results show that the funds Ontario spends to support OFIP have more than been returned to the province in the form of additional tax revenues from the industry.

ACCISS recognizes the value of government initiatives in encouraging investment and believes that OFIP could provide a model to encourage investment in other cultural sectors, such as Canadian-owned, Ontario-based sound recording companies. Companies in this industry have lost significant ground in the last number of years due to: greater competition from foreign multinationals signing Canadian talent directly, widespread development of

"indie" releases — recordings produced and released by artists — and the lack of venture and working capital. A program that would help attract investors would be extremely beneficial to sound recording companies. ACCISS recommends:

RECOMMENDATION 6

The Ministry of Culture, Tourism and Recreation develop sector-specific programs to encourage private investment in the province's cultural industries.

- Ministry of Culture, Tourism and Recreation establish OFIP as a permanent, demand-based program to stimulate Canadian-owned, Ontario-based film and television independent production.
- Ministry of Culture, Tourism and Recreation create an Ontario Sound Recording Investment Program based on the OFIP model.

Programs such as the Capital Cost Allowance (CCA), which offer tax incentives for investment in film, have proven to be less effective than those, like OFIP, that offer tax credits or rebates. According to the film industry, the CCA is not very effective because a large percentage of the tax shelter is absorbed by administration and legal requirements. Because the CCA requires a critical mass of financing (usually \$1 million or more) to make it worthwhile, it is not very helpful for small productions.

A refundable tax credit would be more effective because it would: be relatively uncomplicated to administer, assist projects irrespective of size and eliminate the need for the phalanx of lawyers and tax

accountants required to develop a tax-shelter film project.

To ensure that both the industry and the federal government reap the full benefits of programs designed to encourage investment, ACCISS recommends:

RECOMMENDATION 7

The Ontario Minister of Finance and the Minister of Culture, Tourism and Recreation urge the federal Minister of Finance to create a cultural industries refundable investment tax credit.

Gather Better Market Information and Consumer Intelligence

In the cultural industries, market research does not drive the creative process, but is absolutely critical in order to: improve products; find, understand and reach potential consumers; and package and distribute products effectively. Ontario's cultural industries have been hampered in the past by a lack of reliable, timely and useful market information. In many cases, they do not know enough about their markets or the people who buy their products to develop or market them effectively.

The ability to develop and use information is often a function of company size and resources. Large commercial producers conduct regular market research throughout project development. However, smaller companies are less able to do thorough market research, and new producers are often unaware of the need for it. As a result, advertising money is not necessarily well

spent and marketing efforts are weak. To become more sophisticated, the cultural industries need more information on business planning, buyers' needs and habits, market niches and financially viable projects.

In the marketplace, Ontario firms are competing with one another as well as with foreign companies. Since information is an asset that gives companies a competitive edge, some firms safeguard market information and use it to their own advantage. There are, however, advantages in developing efficient ways to share some information — particularly on export markets — between firms in the same sector and across sectors in order to strengthen the industry's overall ability to compete.

Our cultural industries have also suffered from lack of information on performance. All sectors want more information about the sale and licensing of rights as a way to measure economic activity. Right now, many feel they do not have the numbers, trends or performance indicators they need to attract investment, to recruit and train people with the skills they will need in the future, or to develop effective domestic and international marketing strategies. The following comments were made during the consultations:

- The film and television industry wants consistent financial reporting and accounting standards.
- Some magazines find it difficult to obtain detailed sales performance information which would allow them to fine-tune their distribution. Those who have taken the initiative to obtain intricate sales results have been able to improve their returns by adjusting locations and quantities.

- Better information on revenue and attendance at live theatre productions would also help support industry efforts to ensure ticket prices stay competitive.

Research undertaken during the process identified a series of information gaps:

- Statistics Canada should be encouraged to provide export and import data on book publishing in future publications.
- International monetary transactions including copyright payments are not published for books specifically, but are available for larger aggregates which include books, periodicals, newspapers and other printed material. Separating this information would be helpful.
- Published information on the commercial theatre sector is almost totally lacking. Given its rapid growth, Statistics Canada should redirect resources to this area.
- Distribution is the most rapidly expanding area of film and video. Regional statistics on distribution are not available. Improvements in the current survey to directly capture regional characteristics of film and video distribution should be implemented.
- Information on international monetary transactions such as copyright royalty payments need to be incorporated into Statistics Canada's regular reporting on the sound recording industry.

To give Ontario's cultural industries access to better information, ACCISS recommends:

RECOMMENDATION 8

The cultural industries, trade associations, Statistics Canada and other relevant government departments work together to collect useful, timely and accurate market performance statistics on the cultural industries.

- Industry associations establish an electronic information network that will make it easier for the cultural industries to develop and share information.
- Industry associations establish industry-wide data and financial reporting standards.

Develop a Competitive Edge in the Domestic Market

Like other sectors of the Canadian economy, the cultural industries face a uniquely Canadian challenge: developing and marketing products within a large, sparsely populated country. The small size and large breadth of our domestic market, coupled with our free-trade business environment and proximity to the United States, makes it difficult for most Canadian cultural firms to generate the revenue and profits they need to capture a large share of the domestic market.

Canadian cultural products account for a small percentage of the Canadian market in every sector. Canadian companies face overwhelming competition in our market from large foreign firms with large marketing budgets. Foreign cultural products introduced into Canada,

Domestic Market Share for Canadian Product

Canadian cultural products account for a small percentage of the Canadian market in every sector:

- Canadian books account for 35 per cent of book sales;
- Canadian magazines account for 14 per cent of newsstand sales;
- Canadian sound recordings account for 9 per cent of record, tape and CD sales;
- Canadian feature films account for 6 per cent of theatrical distribution;
- Canadian television programming accounts for 25 per cent of English language television viewing;
- The Franco-Ontarian cultural industries face formidable competition from Quebec firms, which dominate the domestic French-language market.

particularly from the United States, benefit from spillover advertising and large marketing and distribution budgets.

Because of their large domestic market, U.S. companies will have already recouped the cost of production in their own market and can sell their products in Canada for far less than it would cost a Canadian company to produce them here. This means it is usually cheaper, for example, for a Canadian television network to buy foreign productions than similar Canadian ones. The same is true for periodicals, books and sound recordings. For example, Ontario publishers rely on their sales in the domestic market to cover the majority of their costs. Their U.S. competitors only need to recover

incremental production and distribution costs in Canada.

U.S. magazines effectively establish acceptable price ranges for subscriptions and retail sales based on their economies of scale. This makes it extremely difficult to publish profitably in the Canadian market alone. As well, Canadian book publishers are forced to price books based on the price of imported books, rather than on production costs. Books in French sell for perhaps 30 per cent more than English-language books because the prices truly reflect production costs.

One of the major reasons Canadian products have a difficult time gaining access to the market is the foreign influence on the distribution network in Canada. For example, many films are made each year in Canada by Ontario firms but very few find their way to local screens because heavily promoted Hollywood commercial movies dominate Canadian movie screens — as they do screens all over the world though not to the same extent.

Opportunities in the Domestic Market

Although indigenous cultural firms have difficulties competing in the Canadian market, there are opportunities to be exploited. A recent survey on reading, sponsored by the Federal Department of Communications, indicates that during their leisure time, Canadians consume an impressive amount of cultural products. Out of an average of 50 hours per week of leisure activities identified by the survey, the top three activities all related to the consumption of cultural products: television viewing (14.4 hours), listening to music (9.3 hours) and reading (7 hours). This cultural consumption occupied a total of 61 per cent of all leisure time activities.

The survey also supported other studies that suggest that Canadians have more leisure time and are filling that time with far more activities than they did during the late 1970s. When combined with the fact that the greatest growth in leisure activities is occurring within the older range of the population, indications are that cultural consumption will continue to grow over the next decade.

The Cultural Industries in Ontario's Regions



The cultural industries are alive and well across Ontario. In many regions and towns, the cultural industries play a pivotal role in the local economy. For example, in 1985 the cultural sector as a whole (including the not-for-profit arts sector) had an impact of \$39 million on the Sudbury region. However, the issues in the regions are similar to those facing the cultural industries in general, including: access to capital; the need for better business skills; insufficient avenues of distribution; lack of economies of scale; and access to export markets.

Two key regional centres for the cultural industries are Ottawa, serving eastern Ontario, and Sudbury, serving northern Ontario. In Sudbury, there are film companies such as Cinecan Productions and pxfilm and the Cinéfest film festival, as well as sound recording studios and book publishers. In Ottawa, there are film productions houses such as Lacewood Production and MTR Productions, and sound recording studios such as Marc Productions and Sound of One Hand. Other regional centres with strong cultural industries activity include: Windsor, Thunder Bay and Kitchener. As well, Stratford, Niagara-on-the-Lake and Blythe

have theatre sectors which generate significant economic impact in their respective regions. For example, the Stratford Festival generates an annual economic impact of \$100 million.

Sudbury and Ottawa are also the main centres of production for Ontario's large francophone population – estimated at 500,000. This particular subsector faces many of the same issues outlined above, but more particularly: the lack of distribution outlets such as book stores, film houses and theatre halls; access to export markets such as Quebec, New Brunswick, France and Belgium; and competition from Quebec's cultural industries.

Northern Ontario is also home to a flourishing Native/First Nations cultural industries sector. This is most noticeable in the areas of theatre and sound recording. For example, a new, independent label entitled Wawatay Recordings has been launched in Sioux Lookout. It focuses on recordings of Native artists and is being distributed by EMI Music Canada. In addition, a series of recordings have been released by the Ojibwa and Cree Cultural Centre in Timmins.

The growing fragmentation of the market, the advances in technology and the large number of choices that will soon be available to consumers represent opportunities for Ontario companies in the Canadian market. With the growing number of cable channels and other delivery systems, there will be more demand for cultural products. Within

this fragmented market, smaller Canadian firms may be able to exploit specific niche markets and expand their profit base, both domestically and internationally. This will be particularly true in the domestic market if regulatory requirements mandate equitable access to indigenous productions.

To increase Canadian products' share of the domestic market, however, it is not enough to ensure they have access to our distribution systems or radio or television airplay. To take advantage of market opportunities, the cultural industries must develop effective marketing strategies and aggressively promote their products, including point-of-purchase promotions, and incentives for the consumer or store to buy Canadian product.

The arts community has already undertaken significant preliminary work on an arts awareness campaign. There are also opportunities for the cultural industries to work with the tourism industry and the not-for-profit arts sector to attract visitors and increase sales and revenues from live theatre productions. This is discussed in more detail in the next section of the report on solidifying Ontario's status as a cultural and production centre.

The Canadian Radio-television and Telecommunications Commission (CRTC) recognized the need to promote Canadian television programs in 1992, when it amended its Television Broadcasting Regulations to exclude on-air promotions of upcoming Canadian programs from the normal 12-minute per hour limitation on advertising material. But the exclusion only applies to promotions for programs actually aired on the particular television station.

Given the endemic problems involved in marketing Canadian films, perhaps the exclusion should be extended to include advertising for Canadian films. This arrangement would benefit both the filmmakers and the television networks; the filmmakers will gain a larger theatre audience for their films and more revenue, and the networks will benefit when the same

films are later shown on pay television and conventional television.

The CRTC also identified a number of initiatives in its 1990 FM Radio Policy that AM and FM stations can do to meet the requirements for "Canadian talent development." While the policy focuses almost entirely on promoting Canadian musical talent, it could be expanded to include radio initiatives that promote Canadian books and magazines and Canadian authors in general.

In the past, point-of-purchase promotions have been effective in making consumers more aware of Canadian products. For example, the Ontario Lottery Corporation "Halfback" program allowed people to apply half of what they spent on lottery tickets to the purchase of Canadian books. The industry could also look at similar incentives that would encourage stores to promote Canadian products.

To overcome the unique problems that Canadian films face attracting audiences, ACCISS believes the sector will have to develop more innovative marketing strategies. Once again, it is unlikely that the Canadian companies can go head-to-head with the large U.S. companies that promote films. They need a different approach and marketing initiatives that will help the industry overcome some of the factors that keep people from seeing Canadian films. As most film companies do not have the budgets or the expertise to develop innovative marketing campaigns, the sector will have to work together to ensure Canadian films receive more attention.

To ensure Ontario's cultural industries gain a larger share of the domestic market, ACCISS recommends:

RECOMMENDATION 9

Cultural industries work together with related sectors to spearhead a comprehensive domestic marketing strategy for cultural products.

- Cultural industries associations work together with advertisers and performing arts organizations to develop a diverse, long-term media campaign to create awareness of, and promote, Canadian talent.
- The Canadian Radio-television and Telecommunications Commission create incentives for radio and television broadcasters to promote Canadian creators and cultural products in all of the cultural industries.
- The cultural industries, through their associations, pursue cross-sector, consumer-oriented, promotional strategies to introduce new customers to Ontario cultural products and to develop audiences.
- The Ontario Film Development Corporation, working with industry, take a lead role in developing breakthrough initiatives that focus on improving audience share and return on investment for Ontario films.

Using Technology to Market Ontario's Cultural Products

Technology is advancing so rapidly that it is reshaping the market and distribution system for cultural products. The new technology will give the cultural industries greater control over product creation and copyright as well as more choice of various channels and media of distribution. When this happens, the potential for economic return will increase dramatically.

As a result, cultural industries should explore the potential of Internet, Infomercials, electronic shopping, music-on-demand, electronic juke boxes, dial-a-disk, interactive telemarketing, point-of-sale videos and other distribution and marketing technologies. ACCISS recommends:

RECOMMENDATION 10

Industry aggressively exploit the marketing opportunities offered by new technologies through interactive marketing, teleordering and other means.

Expand Sales to Export Markets

Export sales make up a relatively small proportion of total sales in the Canadian cultural industries. For most cultural products produced by Canadian firms the home market is the major market, which given its limited size, renders cost recovery difficult. However, when Canadian cultural firms can sell their products internationally, the incremental revenue can make a significant difference to the bottom line, and the firms usually find it easier to get financing. So our cultural industries should take full advantage of any opportunities for foreign sales.

With the market for cultural products becoming increasingly competitive, firms in Ontario's cultural industries are putting more emphasis on expanding their export markets. The primary targets remain the U.S., Britain and Europe, but Japan and other Pacific Rim nations are becoming increasingly important. Exciting opportunities exist for Canadian firms. For example:

- The success of Canadian recording artists in the United States, Europe and Asia has led to an increase in the international reputation of the Canadian music industry.
- Film companies are becoming more involved in co-productions and in pre-selling programs to the United States and other emerging markets.
- Commercial theatre attracts non-Canadians to Ontario and has been expanding export markets by taking shows developed in the Toronto market, such as *Kiss of the Spider Woman* and *Napoleon*, and touring them in other countries.
- After a recent successful project directed at Francophone communities in Louisiana, Franco-Ontarian cultural industries are pursuing further initiatives there, as well as in New England.

To improve their profitability, the cultural industries must develop the foreign demand for their products. International recognition of the quality of Canadian cultural products — through literary awards, the attendance at touring concerts, prizes at film festivals and tourist buses in our theatre districts — is growing and will help our marketing efforts abroad. But our cultural firms must be prepared to deal with stiff competition. Many larger foreign firms, with better access to distribution networks than the smaller

Canadian-based firms, will be competing for the same international market opportunities. Ontario firms must be able to assess accurately their competitiveness, identify their advantages, identify key growth markets for their products, and establish long-term strategies to exploit these strengths.

This strategy will allow the cultural industries to turn their weaknesses in the broader market, such as their relatively small company size, into strengths. Smaller companies are often better able than larger firms to adapt, to be innovative, to take advantage of new technologies, to develop targeted markets and to prosper in the new global marketplace.

One of the biggest challenges Ontario firms face is maintaining their Canadian identity in an increasingly global market. To do so, Canadian products and Canadian firms will have to develop a niche for themselves, carving out a part of the international market that will be best served by Canadian products, promoting Canadian talent and developing their own "brand" of product, rather than competing directly with larger firms.

Both the federal and provincial governments sponsor programs designed to help Canadian firms develop export markets. Most of these programs have been geared towards the more traditional industries and are, therefore, difficult for cultural industries to access.

Unfortunately, the closing of the province's Ontario Houses has hindered the industries' efforts to develop international markets. Establishing trade consultants in critical export markets would provide Ontario-based cultural industries increased access to international contacts and resources.

For the Canadian magazine industry, the key to increasing revenues within the export context is to convince international advertisers that their most effective way of reaching Canadian consumers is through the use of Canadian media generally and magazines specifically.

Some Canadian theatre and film companies, as well as live music concert tours, have been frustrated by the "iron wall" that sometimes exists at the Canada/U.S. border. For example, if a Canadian theatrical company tours in the U.S., the Canadian producer has to get approval and immigration papers for each member of the cast and crew. The process takes time and, if a key person is denied access, it can be potentially disastrous.

ACCISS recommends:

RECOMMENDATION 11

Industry work with governments and other sectors to develop and implement initiatives designed to increase export sales of Canadian cultural products.

- Identify critical export markets in which to establish cultural industry trade consultants ("beachheads") to support sales initiatives by Canadian suppliers.
- Ministry of Culture, Tourism and Recreation, in partnership with the cultural industries, work with the federal and provincial governments to adapt relevant export programs to enable the cultural industries to use them.
- The provincial government expand the Ontario Development Corporation's export support programs to meet the needs of the province's cultural industries.
- Industry, labour organizations and government support foreign touring by exploring bilateral arrangements and reviewing immigration guidelines to facilitate the movement of performers, technicians and their equipment across the borders.

Solidify Ontario's Status as a Cultural and Production Centre

Strengthening the Link Between Culture and Tourism

The role the cultural sector plays in the tourism industry illustrates the potential strength of the cultural sector in the future economy. A study on cultural tourism conducted by Lord Cultural Resources Planning and Management Inc. in 1993 estimates that 45 per cent of out-of-province tourist visitors to Ontario are "greatly motivated" or "motivated in part" by Ontario's cultural tourism products. According to the Metro Toronto Convention and Visitors Association's (MTCVA) summer survey, cultural events, activities and attractions such as the Toronto International Film Festival, the Harbourfront Authors Festival, the DuMaurier Jazz Festival, and a number of ongoing commercial theatre productions, drew three million visitors to Toronto in 1991. These visitors have a significant ripple effect throughout the economy, spending a combined total of \$600 million in restaurants and clubs, hotels, shopping, and cultural events and other attractions in the area. In 1991, 40 per cent of the seats in the Stratford Festival were sold to U.S. visitors.

Throughout Ontario, the economic impact of cultural tourism on local economies is significant. In smaller communities, the single most important revenue generator for a community can be a culture-related festival or event. For example, the total economic impact of the Stratford Festival is approximately \$50 million annually. In addition, the festival creates an estimated 275 jobs within the retail and service sectors. Even within larger communities, the impact

of cultural tourism can be significant. Out-of-town visitors to Ottawa's Festival Franco-Ontarian spent an average of \$291 each in 1988.

Cultural events have also proven to be resilient. The recession has had less effect on cultural tourism than general tourism. The number of U.S. visitors coming to Ontario specifically for events and attractions increased by 50 per cent between 1990 and 1991, and by 12.6 per cent between 1991 and 1992, while the total number of U.S. visitors declined 1.4 per cent and 2.6 per cent respectively.

The cultural industries play a significant role in attracting tourists to Ontario and should form an important part of the province's advertising campaign. The commercial theatre community has established itself as the third largest English-speaking theatre centre in the world. To capitalize on the tourism and economic potential of its cultural industries, ACCISS believes Ontario should focus more of its marketing efforts on cultural attractions in urban settings, including theatre, live music, galleries and other cultural events.

Although Ontario has the number and quality of productions to attract large audiences, it does not yet offer a full-service, central access point for information and reservations. There is no one number that people can call to get information about, or tickets for, all theatre productions.

To meet its performance targets and attract more cultural tourists to Ontario events and venues, ACCISS recommends:

RECOMMENDATION 12

Industry, working closely with the tourism sector and the arts sector, and supported by all levels of government, develop a joint marketing strategy in co-operation with the tourism industry to position Ontario as a world-renowned cultural tourism destination.

- Focus tourism-oriented editorial and advertisements on the urban experience, favourable currency exchange rate and the cultural diversity of Toronto.
- Work with MCTVA and TTA to provide and promote a North American 1-800 number that offers information and tickets to attractions (including theatre, Metro Zoo, not-for-profit theatre, Art Gallery of Ontario, etc.).

Build on the Strengths of Ontario's Live Theatre Sector

To maintain its increasing status as a production centre for live theatre, Ontario must continue to encourage investment in its cultural industries and their facilities and help the industry remain competitive. Performing arts not only attract tourists; they also serve as a major source of employment and training for large numbers of creators and cultural workers whose experiences will enrich and enliven all the cultural industries.

Ontario's commercial theatre sector has prospered, in part, because of an investment in world-class facilities. Ontario has demonstrated its willingness to invest in and develop the facilities that will support this

sector. The government has been a major contributor to efforts to renovate and refurbish the Elgin and Winter Garden Theatres in Toronto, build the North York Performing Arts Centre and other theatres in communities across Ontario. Private money has been invested in building the new Princess of Wales Theatre and renovating the Pantages Theatre.

Live commercial theatre is the one cultural sector that has not traditionally benefited from any direct government assistance or support. It has been and continues to be almost exclusively privately financed. However, when the government bought the Elgin and Winter Garden Theatres, in 1981, it made an agreement with the theatres' management company that \$.50 of each paid admission would go into a Theatre Development Fund designed to support the development of commercial theatre in Ontario. The fund, which has been held by the Ontario Heritage Foundation, is now at a level where it could be used to fulfil its purpose.

In order for the Elgin and Winter Garden Theatres to be more effective in supporting the development of theatre in Ontario, ACCISS believes that the facility could benefit from having the theatre community more involved in its day-to-day management.

There are a number of ways to build on the strengths of Ontario's live entertainment sector through marketing, facilities and pricing/taxation policies. Ontario's theatre producers have yet to fully exploit co-operative marketing opportunities with other Ontario cultural attractions. ACCISS believes the industry as a whole would likely benefit from "packaging" and marketing two or three different events together. While Ontario currently has enough large venues to meet demand, it lacks a critical

mass of small or medium venues in which to produce less expensive productions. The need for facilities of this size is illustrated by comparing New York and Toronto. In New York the average Broadway production is situated in a theatre with a seating capacity of 1,250 with a range in seating from 565 to 1,761. In Toronto current commercial productions are located in theatres with an average seating capacity of 2,200 with a range from 1,497 to 3,200.

Facility size also affects the type and style of productions. With the variety of facilities in New York, producers have more flexibility. The number of large capacity facilities available in Toronto has led to an overdependence on the “mega-musical” and discouraged the development of more drama and “off-Broadway” productions like *Forever Plaid*. To expand the variety of products available for theatre goers, Toronto needs commercially viable venues for smaller productions. The major challenge in developing these facilities is the fact that, to take advantage of the critical mass of theatre productions, restaurants, hotels and other visitor attractions that help theatre productions attract an audience, they must be located within the downtown core. Development, however, is hampered by the property tax difficulties associated with developing a commercial theatre in downtown Toronto.

Given that physical assets such as theatres have a long depreciation schedule, the construction of small and mid-sized theatres could also be encouraged by accelerating the depreciation on these assets. This would reduce the tax burden for such facilities and encourage their construction. In addition, ACCISS believes that the artistic development and financial health of the National Ballet of Canada and the Canadian Opera Company are constrained by the lack

of appropriate facilities. The two share the O’Keefe Centre, and the opera company also uses the Elgin Theatre. Neither setting is designed as a ballet or opera house, and they do not showcase these companies to their full potential. If the ballet and opera companies had more appropriate facilities, they would likely draw larger crowds and have a greater impact on cultural tourism.

Right now, ticket prices to live theatre in Toronto are comparable to those charged in New York and Chicago. Any advantage offered by the exchange rate between the Canadian and U.S. dollar is offset by generally higher prices in Ontario and higher sales taxes. Any effort by governments to increase tax revenues — such as an entertainment tax or higher property or business taxes — can affect the theatre’s pricing structure and make the industry either less or more competitive. A less competitive industry will attract fewer visitors who will spend less in Ontario and generate less revenue for government.

At present, theatres with fewer than 3,200 seats are exempt from a 10 per cent provincial entertainment tax. This exemption, which has helped theatres keep ticket prices competitive, has led to an increase in ticket sales and has been a key factor contributing to Ontario’s boom in theatre since 1988. Because the current exemption is only based on venue size, it applies to both Canadian and foreign productions. Commercial producers argue, however, that profits from popular foreign productions directly subsidize Canadian productions and local community activities. The imposition of the 10 per cent admissions tax would reduce the commercial activities and increase the overall costs of operating these facilities. Regional facilities like Centre in the Square and Hamilton Place rely heavily upon commercial

productions to augment their performing line-ups and support their operations.

ACCISS encourages all levels of government to recognize the impact that taxes and other measures can have on the cultural industries. Therefore, ACCISS recommends:

RECOMMENDATION 13

Industry and governments develop co-operative strategies to build on the strengths of

Ontario's live theatre sector.

- Theatre sector form a cooperative marketing group to cross-promote commercial and not-for-profit theatre, including the designation and promotion of Theatre Districts.
- Industry associations work with tourism industry associations to develop quarterly performing arts supplements and seek reduced line rates in major newspapers.
- Ministry of Culture, Tourism and Recreation implement the Theatre Development Fund based on guidelines developed with industry.
- Industry, in partnership with all levels of government, develop a critical mass of mid-sized live performance venues.
- Federal Minister of Finance consider introduction of an accelerated depreciation rate based on the number of seats for theatre buildings.
- The Ministry of Culture, Tourism and Recreation take the necessary action to ensure that the Elgin and Winter Garden Theatres are administered with input from the theatre community.

- Ministry of Culture, Tourism and Recreation work with the federal and municipal governments to resolve with dispatch the issue of an appropriate venue for the National Ballet of Canada and the Canadian Opera Company.
- The Ministry of Finance implement a permanent admissions tax exemption for Ontario theatres of up to 3,200 seats.

Maintaining Ontario's Status as a Production Centre

Toronto and the Greater Toronto Area (GTA) have the largest concentration of arts and cultural industries in Ontario. This region has developed the critical mass of facilities and infrastructure to become a leading production centre. Most of Ontario's book and magazine publishing, sound recording, film and television production and commercial theatre production is done in and around Toronto.

Over the last 20 years, Ontario has developed a tremendous capacity to support cultural productions, including publishing equipment, sound recording studios and film studios. Each year, Ontario manages to attract over \$400 million worth of film production.

With the steady changes and advances in technology, the cultural industries must continually reinvest in the production facilities that support their creations and attract others to the province. Competition for film production is fierce. Ontario competes with British Columbia and Quebec. It also competes with many other centres in the United States. In choosing sites to make a film, the major film producers look closely at the number and type of facilities and supporting services. Having recognized that location filming can generate significant economic impacts, many local governments across North America have created film offices or commissions under the aegis of economic development agencies. Membership in the Association of Film Commissioners International has grown from 60 in 1980 to over 235 in 1994.

While the Province of Ontario has invested heavily in film and television production through such efforts as the OFDC's Ontario Film Investment Program, government has not invested in the infrastructure itself. The Canadian production community and the studio infrastructure are interdependent; both must remain healthy for the continued growth and survival of the Ontario film and television industry.

Location Promotion

Virtually all the state and provincial film commissions undertake a basic set of activities in order to promote their locales: participation in trade shows and direct mailing to target production companies. Some provide sales tax or hotel tax rebates to production companies on the condition that some minimum expenditure or time is spent in the city or state. Other incentives include efforts by film offices to spur local production.

An emerging form of support for local film industries in many of our competitive markets is state support for investment in studio facilities. Florida and North Carolina have been able to capture more than the "location-type production" and hence bigger portions of production budgets by having facilities where in-studio and post-production work can also be done.

In response to this type of incentive program, the City of New York undertook a major review of their film and television industry and recommended that the following be undertaken to counteract these activities:

That the New York Film Office actively support viable private-sector proposals for large and modern studio facilities in Manhattan by: (i) raising awareness about the need for such space and (ii) assisting the construction project proponents in obtaining City regulatory and other approvals.

To ensure Ontario remains a desirable location for film and television production and can compete with other locations in North America, production companies must continue to make capital investments in studios, laboratories and equipment houses and the other facilities that will attract major producers and major projects.

The Municipality of Metropolitan Toronto highly values the role of the arts and cultural industries. Metro Council recently approved a cultural plan for the city that is designed to achieve many of the same goals as this strategy. In particular, the plan stresses the need for Metropolitan Toronto to develop a cultural industries strategy for the GTA as well as arts, cultural tourism and heritage strategies.

To maintain Ontario's status as a production centre, ACCISS recommends:

RECOMMENDATION 14

Industry, working closely with all levels of government, rapidly develop and implement a series of concerted initiatives to support and expand the current infrastructure to ensure Toronto strengthens its position as a premier North American production centre.

- The Ministers of Finance and Municipal Affairs and municipal governments develop supportive property, service and business tax treatment for cultural industries infrastructures, including film studios, theatres, and the not-for-profit sector.
- Industry and the provincial government work closely with Metro Toronto to develop and implement Metro's cultural industries strategy and related initiatives.
- Industry, together with the Minister of Culture, Tourism and Recreation and municipal government study the capital investment needs of cultural industries companies (e.g., studios, laboratories, equipment houses, printers, etc.) in the context of competitive locations across North America.
- The cultural industries, with the support of municipal and provincial governments, develop initiatives to encourage foreign film and television producers to choose Ontario as a production location.

SUMMARY OF RECOMMENDATIONS FOR CHAPTER 2

Recommendation 1

The Ministry of Labour, in consultation with the Ministry of Culture, Tourism and Recreation and the cultural sector, establish a formal labour relations framework for self-employed cultural workers.

- As part of that framework, the Ontario government recognize existing collective bargaining agreements in areas of provincial jurisdiction.
- The Ministry of Labour and the Ministry of Culture, Tourism and Recreation begin discussions with the federal government about using the existing federal tribunal for artists' labour issues (CAPPRT) to administer a new labour relations framework for self-employed cultural workers in Ontario.

Recommendation 2

Industry and Ministry of Culture, Tourism and Recreation work with Ontario Training and Adjustment Board and the provincial sectoral training council for culture to establish a comprehensive training strategy for cultural workers.

- Focus in particular on labour- or association-sponsored apprenticeship and mentorship programs and highlight adaptability to new technologies and business skills development.

- The provincial government urge the federal Ministers of Finance and Human Resources Development to establish new criteria or status for self-employed cultural workers to enable them to access existing federal training programs and funds.

Recommendation 3

The cultural industries, labour organizations and the Ontario Training and Adjustment Board work together to develop training initiatives to improve business, marketing and entrepreneurial skills in the industry.

- Explore links with the proposed Computing Sector Resource Facility,
- Support the development needs of the cultural industries' small to mid-sized firms including the development of training programs on how to utilize various sources of capital, attract investors and improve financial planning skills.
- Take the initiative to educate banks about the value of intellectual properties and to help develop appropriate models for the multi-stage financing of production in the cultural industries sector.

Recommendation 4

The Ministry of Culture, Tourism and Recreation, together with industry, urge other provincial and federal government departments to ensure that the cultural industries have access to all incentive programs designed to support small business and industrial development in Ontario and Canada.

Recommendation 5

Cultural firms work with the Ministry of Culture, Tourism and Recreation to determine the feasibility of establishing an Expert Investment Corporation for the cultural industries under the Ontario Lead Investment Fund.

Recommendation 6

The Ministry of Culture, Tourism and Recreation (MCTR) develop sector-specific programs to encourage private investment in the province's cultural industries.

- MCTR establish OFIP as a permanent, demand-based program to stimulate Canadian-owned, Ontario-based film and television independent production.
- MCTR create an Ontario Sound Recording Investment Program based on the OFIP model.

Recommendation 7

The Ontario Minister of Finance and the Minister of Culture, Tourism and Recreation urge the federal Minister of Finance to create a cultural industries refundable investment tax credit.

Recommendation 8

The cultural industries, trade associations, Statistics Canada and other relevant government departments work together to collect useful, timely and accurate market performance statistics on the cultural industries.

- Industry associations establish an electronic information network that will make it easier for the cultural industries to develop and share information.
- Industry associations establish industry-wide data and financial reporting standards.

Recommendation 9

Cultural industries work together with related sectors to spearhead a comprehensive domestic marketing strategy for cultural products.

- Cultural industries associations work together with advertisers and performing arts organizations to develop a diverse, long-term media campaign to create awareness of, and promote, Canadian talent.
- The Canadian Radio-television and Telecommunications Commission create incentives for radio and television broadcasters to promote Canadian creators and cultural products in all of the cultural industries.

- The cultural industries, through their associations, pursue cross-sector, consumer-oriented, promotional strategies to introduce new customers to Ontario cultural products and to develop audiences.

- The Ontario Film Development Corporation, working with industry, take a lead role in developing breakthrough initiatives that focus on improving audience share and return on investment for Ontario films.

Recommendation 10

Industry aggressively exploit the marketing opportunities offered by new technologies through interactive marketing, teleordering and other means.

Recommendation 11

Industry work with governments and other sectors to develop and implement initiatives designed to increase export sales of Canadian cultural products.

- Identify critical export markets in which to establish cultural industry trade consultants ("beachheads") to support sales initiatives by Canadian suppliers.
- Ministry of Culture, Tourism and Recreation, in partnership with the cultural industries, work with the federal and provincial governments to adapt relevant export programs to enable the cultural industries to use them.

- The provincial government expand the Ontario Development Corporation's export support programs to meet the needs of the province's cultural industries.

- Industry, labour organizations and government support foreign touring by exploring bilateral arrangements and reviewing immigration guidelines to facilitate the movement of performers, technicians and their equipment across the borders.

Recommendation 12

Industry, working closely with the tourism sector and the arts sector, and supported by all levels of government, develop a joint marketing strategy in co-operation with the tourism industry to position Ontario as a world-renowned cultural tourism destination.

- Focus tourism-oriented editorial and advertisements on the urban experience, favourable currency exchange rate and the cultural diversity of Toronto.
- Work with Metro Toronto Convention and Visitors Association and the Toronto Theatre Alliance, to provide and promote a North American 1-800 number that offers information and tickets to attractions (including theatre, Metro Zoo, not-for-profit theatre, Art Gallery of Ontario, etc.).

Recommendation 13

Industry and governments develop cooperative strategies to build on the strengths of Ontario's live theatre sector.

- Theatre sector form a cooperative marketing group to cross-promote commercial and not-for-profit theatre, including the designation and promotion of Theatre Districts.
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Recommendation 14

Industry, working closely with all levels of government, rapidly develop and implement a series of concerted initiatives to support and expand the current infrastructure to ensure Toronto strengthens its position as a premier North American production centre.

- The cultural industries, with the support of municipal and provincial governments, develop initiatives to encourage foreign film and television producers to choose Ontario as a production location.
- The Ministers of Finance and Municipal Affairs and municipal governments develop supportive property, service and business tax treatment for cultural industries infrastructures, including film studios, theatres, and the not-for-profit sector.

- Industry and the provincial government work closely with Metro Toronto to develop and implement Metro's cultural industries strategy and related initiatives.
- Industry, together with the Minister of Culture, Tourism and Recreation and municipal government study the capital investment needs of cultural industries companies (e.g., studios, laboratories, equipment houses, printers, etc.) in the context of competitive locations across North America.

CHAPTER 3

POSITIONING FOR THE FUTURE

GOAL #2:

Develop an industry/government framework to enable Ontario's cultural industries to take the lead in developing multimedia and in using new distribution systems for traditional cultural products.

The success of Ontario's cultural industries rests not only on improving their performance in today's marketplace but on developing the skills and support structures that will help them compete effectively in the future.

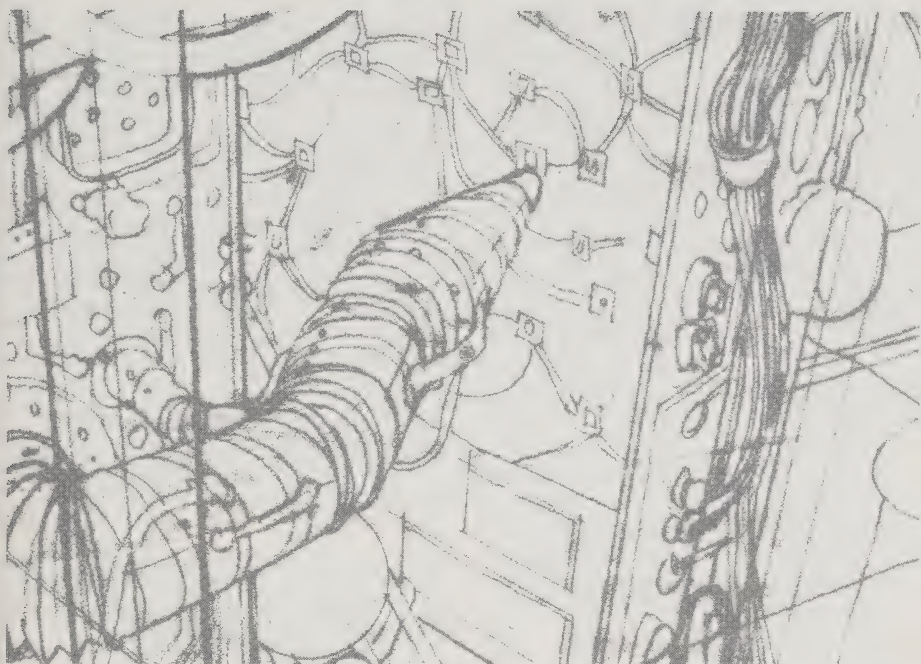
The rate of technological and market change is staggering. The boundaries which once separated the computer, telecommunications and cultural industries are fast disappearing. As the cultural industries move into the realms of computer-based animation, multimedia and virtual reality, they will become more closely tied to computing and telecommunications.

Computer and telecommunications technologies are creating opportunities for changes in the ways in which cultural products are created, used and distributed. Computer technologies, for example, have led most book, magazine, music and film publishers to supplement their traditional products with new digital media, whether on computer discs, compact discs or CD-ROM, a digital storage media for text, video and music. These changes have been most dramatic in the music industry where digital compact discs have all but replaced traditional records and audio tapes.

Once text, music, images and film are digitized, they can be combined in new ways, fuelling the emergence of "multi-media" products. Already a number of publishers are producing multimedia versions of encyclopedias and children's works which combine text, image, music and video.

Computer technology also allows consumers more control and choice. Interactive multimedia products give the user a more active role and have led to an explosion of new interactive products in the education and entertainment markets. Film producers are beginning to experiment with interactive forms which allow the spectator to make choices which determine the outcome of a movie. Music stores are allowing customers to 'cut' their own compact discs with a customized selection of music.

The increased reliance of the cultural industries on new technologies is also blurring the relationships between technician and creator, as artists become more technologically oriented and programmers become more central to the creative process. Nowhere is this more apparent than in the film industry. An excellent example can be seen in the animation work done by the creative team at the Toronto-based production company, Nelvana Ltd., for the animated version of *Beetle Juice* and in the software created by technicians at Toronto's Alias Research and used in *Jurassic Park* and *Terminator 2*.



The multimedia industry is a natural extension of existing cultural industries. Over time, multimedia products along with books, magazines, music and film, will help us share ideas, exchange information and express our cultural identity. It is critical for both our cultural and economic well-being that Ontario's content providers be well positioned to compete in this emerging industry.

The growth of products and services in digital form, combined with the increased capacity of telecommunications networks, is allowing cultural producers to distribute their products electronically to the office or to the home. While companies are working feverishly to expand the high-speed electronic highway, portions of it are already

in place in Canada with video-on-demand, two-way television and electronic network services growing quickly. At the same time, the companies which provide consumer electronics and networks are forming alliances with cultural content providers such as publishers, film and music companies. They recognize that without appropriate content, the "electronic highway" will be an empty road.

However, with the emergence of new forms of delivery, particularly via electronic networks, traditional forms of regulation and control will be eroded. Right now, there are new competitive threats and opportunities on an international scale. While the traditional broadcast media are subject to Canadian content guidelines, which ensure

some access for Canadian product, new electronic networks may develop in which cheaper foreign product will displace indigenous programs unless appropriate access mechanisms can be put in place.

For Ontario's cultural industries to be leaders in providing content for the new information highways, new partnerships must be forged to link creators and producers from across sectors with the providers of new electronic distribution networks and devices.

To achieve Goal #2, industry and government must:

1. strengthen links both within the cultural industries and between related sectors
2. develop coordinated industry policy to reflect and support industry convergence
3. maximize the effectiveness of current government support to the cultural industries.

Strengthen Links Within Cultural Industries and Between Related Sectors

Open Lines of Communication Among Sectors

The multimedia sector is growing at an exponential rate and is expected to rival, if not displace, traditional cultural products and distribution. Already video games outsell other cultural products. Although the installed base of CD-ROM is still relatively small compared to other consumer products such as television sets, it is more than doubling each year and major computer manufacturers will be including CD-ROMs as a standard component of new shipments starting in 1995.

The alliance developing among consumer electronic, telecommunications, computer, software and media giants reflects the magnitude of change and the growth potential of this market, one which the Chairman of Apple Computer, John Sculley, says could reach \$3.5 trillion by the turn of the century. Ontario-based cultural firms must also take steps to strengthen their links with technology firms and develop strategic alliances.

As noted earlier, there is a strong link between our wealth of culture and tourism, with many visitors coming to Ontario because of our wealth of cultural products.

To reflect and support the linkages among these sectors, there must be stronger and more effective lines of communication:

- among the cultural industries, computing, telecommunications and tourism sectors; and,
- among the associations which represent these sectors.

Policies developed within one sector should not adversely affect others, but be integrated so all sectors can achieve their goals and be competitive in new and changing markets.

To develop a coordinated industrial strategy that will help position Ontario's cultural industries for the future, ACCISS recommends:

RECOMMENDATION 15

Industry associations and councils in the cultural industries establish formal relationships with councils in the related sectors of telecommunications, tourism and computing.

Develop a Centre for Cultural Industries and Technology

The world-wide entertainment and delivery networks are already preparing for convergence. Some of those who own the content and those who own the means of carrying it from one market to another — such as Time-Warner/U.S. West (telephone) and Time-Warner/Itochu Corp./ Toshiba Corp — have already negotiated major alliances. The pending acquisition of Maclean Hunter by Rogers Communications indicates that these trends are also happening in Canada.

While some Ontario cultural firms are extremely high-tech, others do not yet have the resources to develop and use technology effectively or adapt to technological change. These companies would benefit from the support and assistance of an organized centre for culture and technology.

Such a centre could provide the link between creators in the cultural industries and companies in the computing, telecommunications and education sectors. It would help Ontario's cultural industries:

- develop the expertise and resources needed to exploit emerging opportunities
- exploit opportunities across industries
- get access to information, training and resources needed to develop and implement technologies
- develop measures to address the impact technology has on intellectual property and Canadian content guidelines.

It would also give firms in other sectors direct access to cultural firms who could become potential partners on multimedia projects. It could become a research and demonstration centre that would support the use of new technologies and the development of new products.

As part of its consultation process, ACCISS assessed the proposed centre. Over 90 respondents from a cross section of the cultural industries and related sectors responded. Ninety-seven per cent indicated that they felt that successful development of multimedia was "essential" or "quite important" or "important" to their business or professional interests. Only 1 per cent of respondents said that it was not important. Sixty-five per cent of the companies surveyed agreed there was a need for such a centre, another 30 per cent said they were not sure, but only 5 per cent felt there was no need. According to respondents, the most important services a centre could provide were:

- information exchange and networking opportunities
- cross-sectoral applied research
- technology education and training seminars and programs to help cultural producers become more familiar with technology
- access to new technologies
- market research services on the changing environment.

The concept of a technology centre is not unique to ACCISS. Cultural agencies — including TVOntario, the Royal Ontario Museum, the Art Gallery of Ontario, the McMichael Canadian Collection, the Ontario Heritage Foundation, the Royal Botanical Gardens, the Ontario Science Centre and the Ontario Film Development Corporation — have established an Information Technology Council and have been assessing the feasibility of forming a centre that would have a similar role but would also help the organizations involved produce multimedia programs for their own exhibitions and for the education system and home market. Their concept includes components that would allow the general public to view and experiment with multimedia technologies and cultural agency materials — and possibly cultural industry products — in one location. The Council is also considering establishing an on-line database to expand public access to images and information on the information highway.

The cultural agencies have a wealth of information and content. ACCISS suggests that the feasibility of collaborating with them on a single centre be explored.

To help ensure that Ontario's cultural sector plays a lead role in using and developing new technology, ACCISS recommends:

RECOMMENDATION 16

The cultural industries, in partnership with the Ministry of Culture, Tourism and Recreation, create a Centre for Cultural Industries and Technology to encourage strategic alliances and position Ontario's cultural industries as world leaders in multimedia content for the electronic highway. The Centre will:

- establish information exchange and networking opportunities across sectors and among industries, and with other technology centres across Canada and the U.S.
- provide a "hands-on" showcase of multimedia technologies and cultural products
- act as a catalyst for developing the training programs necessary for the creative development of multimedia, and the educational programs required to foster cultural industry producers' understanding of the potential product applications of the new technology
- undertake cross-sectoral, action-oriented, applied research on content and consumer-based aspects of the new technologies
- provide research and development support for demonstration projects involving technology and content.

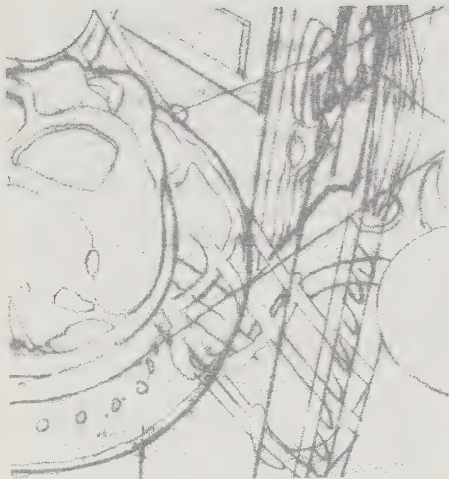
Develop a Coordinated Industry Policy

Ontario has a wealth of cultural and creative resources, as well as the skill level and diversity needed for success in the emerging electronic markets. In these borderless markets, geography and small scale are no longer the barriers they once were. Toronto, with its abundant resources and skills in films, video, publishing, graphic arts, animation and software development, is well positioned to become a world leader in multimedia development and production. This is clearly illustrated by the growing number of Canadian-owned, Ontario-based companies which are world-class players in multimedia field.

Ontario's cultural industries are on the verge of an unprecedented transformation as a result of the most significant technological advances since the advent of moving pictures. Governments, which have traditionally supported the cultural industries, are no longer in a position to assist with the major financial investments; however, they can – and must – develop policies to help Ontario's cultural industries evolve and compete in the emerging multimedia markets.

While ACCISS believes that the Ministry of Culture, Tourism and Recreation should have lead responsibility for multimedia, it recognizes that in the production and distribution of multimedia, the cultural industries will be inextricably linked with the telecommunications and computing sectors. No one sector can achieve success alone and all three will benefit from more integrated policies.

Right now, at both the federal and provincial level, the industrial or economic



development ministries are responsible for computing and telecommunications, while cultural ministries are responsible for cultural industries. ACCISS believes there should be more communication among these ministries and greater understanding of the impact that industrial and economic policies and programs can have on the still developing cultural sector.

In addition, public funding for trade and sectoral associations should be consistent with the vision of the cultural industries of the future. This could mean reviewing which associations receive funding and reviewing what kind of projects and activities are eligible for funding. Ideally, funding should be targeted at facilitating the competitiveness of the sector in the long term.

Therefore, ACCISS recommends that:

RECOMMENDATION 17

Government departments at all levels develop integrated policies appropriate to meeting the challenges of the new environment. As part of this development:

- Departments responsible for culture, computing, telecommunications and industrial development create and strengthen formal, structured relationships.
- The Ministry of Culture, Tourism and Recreation be assigned the lead provincial role in the field of multimedia, to work in consultation with the Ministry of Economic Development and Trade and the cultural industries.
- Ministry of Culture, Tourism and Recreation, in consultation with industry, study the OFIP model to determine whether it can be adapted to support industrial development of multimedia.
- Ministry of Culture, Tourism and Recreation examine trade association support to ensure that government assistance is appropriate to support this industry-wide approach.

Maximize the Effectiveness of Current Support Programs

Both the trend toward digitization of all content and the development of interactive multimedia products is drawing the cultural industries together. As a result, ACCISS discussed whether the cultural industries and Ontario's economy would be better served if assistance programs were managed by a single agency that would operate at arm's length from government.

Over time, the Ontario government has developed a number of agencies and programs designed to support the cultural industries, including:

- the Ontario Film Development Corporation
- the Ontario Publishing Centre
- operating grants to cultural industry trade organizations, and
- grant support for marketing sound recording projects.

These programs, which provide a variety of grants, subsidies and loans, are vital to the cultural industries. For new firms with no track record, they are the only source of funding. For more established firms, these programs have helped them survive through some tough economic times.

During its consultations, ACCISS learned that the industry would like these programs to:

- be better coordinated
- be administered at arm's length from government
- focus on helping Ontario's industry become more competitive in both domestic and global markets
- make more effective use of the limited government funding available for the cultural industries.

The strongest arguments in favour of such an arm's length agency are that it would:

- co-ordinate ad-hoc programs within each sector;
- reduce the cost of administering the various programs separately;
- be as open as possible and ensure the widest range of creators and producers have the opportunity to develop their work;
- encourage cross-sector initiatives;
- assist in developing opportunities in new and emerging markets; and,
- explore the need to support new cultural products.

In addition, the programs recommended earlier in this report to assist the sound recording and multimedia industries should come under the administration of this agency.

The agency would maintain distinct assistance programs for each cultural sector but it would also encourage cross-sectoral initiatives. It would have a Board of Directors made up of representatives from the industries, related sectors and the cultural community. With direct industry involvement, the agency will have the knowledge and expertise required to administer funds effectively and provide support to content developers interested in new product development. Through this agency, the cultural industries would be able to speak with a stronger voice and have more influence when dealing with government and other sectors of the economy.

It was recognized that a comprehensive single agency would be a major structural change on the part of government and could take some time to implement. In the interim, it was agreed that the Ontario Publishing Centre should move to arm's-length status immediately.

ACCISS recommends:

RECOMMENDATION 18

The Ontario government create a single arm's length agency to deliver core cultural industries programs, including those provided by the Ontario Film Development Corporation, the Ontario Publishing Centre, the Sound Recording Investment Program and the Theatre Development Fund.

SUMMARY OF RECOMMENDATIONS FOR CHAPTER 3

Recommendation 15

Industry associations and councils in the cultural industries establish formal relationships with councils in the related sectors of telecommunications, tourism and computing.

Recommendation 16

The cultural industries, in partnership with the Ministry of Culture, Tourism and Recreation create a Centre for Cultural Industries and Technology to encourage strategic alliances and position Ontario's cultural industries as world leaders in multimedia content for the electronic highway. The Centre will:

- Establish information exchange and networking opportunities across sectors and among industries, and with other technology centres across Canada and the U.S.
- Provide a "hands-on" showcase of multimedia technologies and cultural products
- Act as a catalyst for developing the training programs necessary for the creative development of multimedia, and the educational programs required to foster cultural industry producers' understanding of the potential product applications of the new technology

- Undertake cross-sectoral, action-oriented, applied research on content and consumer-based aspects of the new technologies
- Provide research and development support for demonstration projects involving technology and content.

Recommendation 17

Government departments at all levels develop integrated policies appropriate to meeting the challenges of the new environment. As part of this development:

- Departments responsible for culture, computing, telecommunications and industrial development create and strengthen formal, structured relationships.
- The Ministry of Culture, Tourism and Recreation be assigned the lead provincial role in the field of multimedia, to work in consultation with the Minister of Economic Development and Trade and the cultural industries.
- Ministry of Culture, Tourism and Recreation, in consultation with industry, study the OFIP model to determine whether it can be adapted to support industrial development of multimedia.

- Ministry of Culture, Tourism and Recreation examine trade association support to ensure that government assistance is appropriate to support this industry-wide approach.

Recommendation 18

The Ontario government create a single arm's length agency to deliver core cultural industries programs, including those provided by the Ontario Film Development Corporation, the Ontario Publishing Centre, the Sound Recording Investment Program and the Theatre Development Fund.

CHAPTER 4

ALIGNING THE OPERATING ENVIRONMENT

GOAL #3:

Create a stable, equitable operating environment for Canadian-owned cultural industries in Ontario.

In a small market such as Canada, where producers do not enjoy economies of scale and the price advantages of their foreign competitors, regulation and other government intervention can help create a more equitable operating environment which enables Canadian companies to compete on an equal basis.

Measures such as funding support, copyright laws, regulation of Canadian content on the airwaves, postal subsidies, tax measures for both film and periodical publishing, and sales tax exemptions have helped to provide a supportive operating environment for Ontario's cultural industries.

To sustain and improve this environment, there are issues under each of the following categories which need to be addressed:

1. copyright
2. taxation
3. trade
4. foreign investment policies
5. government procurement policies
6. Canadian content mechanisms
7. relationships between industry and government

Most of the regulations that affect the cultural industries are administered federally. However, as the majority of Canada's cultural industries are located in Ontario, the Ontario government and the industries operating in the province have a responsibility to take lead roles in advocating changes that will improve the operating environment.

Copyright Issues

Regardless of how a cultural product is formatted or delivered, the "content" or intellectual property is what gives it value. For this reason, effective use of copyright has the potential to generate significant income for the cultural industries. The sale of ideas and rights is replacing the sales of physical product and indicates the growing economic importance of copyright protection, both internationally and domestically.

At the same time that laws and practice are recognizing the value of copyright in protecting intellectual property, advances in communication technology and information networks have significant implications on our ability to protect intellectual property. With the proliferation of digitization, the original product may be created and delivered simultaneously through many channels and formats. Consumers will have more control over what they view, read and listen to, but the company that holds the rights to an intellectual property may have less control over how the property is distributed and used. For example, a company in the U.S. is developing a process whereby a customer can enter a store and create a specialized CD by choosing all the individual selections from a variety of sources. Unless these trends are accompanied by appropriate tracking technology, copyright owners may not be able to collect their royalties.

Even as they identify opportunities for producers in the market context, government and industry must develop appropriate ways to ensure that creators and producers receive due compensation for the sale and use of their work.

Review of Copyright Legislation

Copyright is a federal responsibility. The federal government is in the process of considering Phase II amendments to its copyright legislation. The provincial government and Ontario's cultural industries have an opportunity to influence changes to this legislation.

Piracy/Infringement

Current copyright legislation acknowledges the creators' rights, but does not have strong enough deterrents for potential infringers. The practice of copying audio and visual performances from pre-recorded tapes, records, videos, and broadcast sources such as radio and television is widespread. Although the audio and visual performances are protected by copyright, there is no practical way to monitor home taping or collect the royalties due to the copyright owners. It is estimated that home taping costs the music industry \$600 million a year in foregone copyright revenue.

Rental of videos and sound recordings is a relatively new and expanding distribution system for cultural products and one that copyright owners must be able to control because rentals can and often do displace sales.

Educational institutions often tape programs off-air and then use the materials in classroom settings without paying any royalties. Similarly, schools may purchase tapes of programs intended only for replay in private homes and play them in classrooms without securing a public performance license. Both practices undermine the economic support for the creation of Canadian audio-visual materials for educational use, and need to be restricted. The Ministry of Education

recently negotiated with CanCopy for a province-wide photocopy agreement, rather than a school-board-by-school-board approach, which should make it easier for schools to use materials and for creators to receive their royalties. ACCISS applauds this type of initiative and encourages other government departments, where possible, to do the same.

Parallel Imports/"Buying Around"

Parallel imports or "buying around" is a major issue for book publishers and a growing concern to record companies and video distributors. "Buying around" is the practice of buying books, records or tapes directly from U.S. trade wholesalers rather than from the Canadian distributor who has the rights to market the title in Canada. By depriving the Canadian distributor of revenue, "buying around" destroys the integrity of exclusive geographical territories, which is central to the exploitation of copyright.

Many countries, including the United States, give a so-called "distribution right" to exclusive distributors, which allows them to stop "buying around" from foreign countries.

In early 1992, the federal government announced that it had decided to introduce a distribution right into the **Copyright Act**, which would give such a right to exclusive distributors of books provided that they met reasonable fulfilment standards.

ACCISS supports this measure as being a central part of a cultural industries strategy. Treating Canada as a separate and distinct market will benefit all copyright owners, but it is particularly important to indigenous publishers because it allows them to purchase exclusive rights to distribute

domestic and foreign product and to earn revenue from such rights. ACCISS would extend such a right beyond books to include sound recordings and videocassettes, both of which face similar issues.

Neighbouring Rights

Some 32 countries now recognize various forms of neighbouring rights. Such rights typically include a recognition of the creative contribution that performers and producers make to a sound recording, giving them rights and royalties similar to those for composers and lyricists. Canada does not now recognize giving such neighbouring rights, but it is under active consideration as part of copyright reform. Such recognition, given on a reciprocal basis, should be a fundamental building block for a cultural industries strategy.

In view of the potential impact of new technologies on distribution systems, ACCISS recommends:

RECOMMENDATION 19

The cultural industries sector and the Minister of Culture, Tourism and Recreation urge the federal government to enact the second phase of *Copyright Act* reform, particularly neighbouring rights, rights for exclusive distributors, stronger remedies, strict limitations on educational exemptions and ongoing review mechanisms.

RECOMMENDATION 20

All levels of government, schools and libraries respect authorized Canadian rightsholders when purchasing and utilizing cultural products.

Taxation Issues

Like all businesses in Canada, the cultural industries operate in a complex tax and trade environment. They must deal with municipal, provincial and federal tax measures and their implications. Differences between provincial tax treatments can affect the operating environment, making it more advantageous for companies to locate in one province than another.

Some tax measures help support the industry. For example, sections 19 and 19.1 of the **Income Tax Act** do not allow Canadian companies to deduct as a business expense the cost of advertising placed in

non-Canadian magazines or broadcasts designed to reach Canadians. This tax incentive helps the Canadian magazine industry attract more advertising and discourages the diversion of advertising revenues to U.S. border stations and U.S. publications.

The provincial exemption from the 10 per cent entertainment tax for theatres with fewer than 3,200 seats is another example of a tax measure that supports the industry and helps it remain competitive. Since the exemption began in the late 1980s, the commercial theatre sector has grown at a phenomenal rate, from annual revenues of \$20 million to over \$200 million.

A serious tax issue for the cultural industries is the Goods and Services Tax (GST) charged on reading material. In the past, books and magazines were exempt from the federal sales tax, although provincial sales tax has always been levied on magazines sold on the newsstands. In contrast, competing countries either do not tax reading materials or they tax them at a preferential rate. This affects the competitiveness of our products abroad, while at home the GST has also widened the gap between Canadian magazine publishers and their foreign competitors. Many foreign publishers do not charge the GST on subscriptions they sell to Canadians. This gives foreign magazines, which already benefit from economies of scale, an unfair seven per cent price advantage over Canadian titles.

ACCISS is aware that the federal government is considering reviewing the GST and harmonizing it with provincial sales taxes. Ontario's Fair Tax Commission has stated that it is against exempting reading materials from provincial retail sales taxes. The Commission argues that people with higher incomes buy more books, so the exemption

benefits the wealthy and is not fair. While people with more money spend more on books, people with less money spend a much higher percentage of their incomes on books. Sales taxes on books hurt this group more than the higher income brackets.

The impact of the GST was immediate and significant. According to the Association of Canadian Publishers and the Canadian Magazine Publishers Association, when the GST was first introduced, magazine profits dropped by 62.5 per cent and book sales fell by 10 to 15 per cent. If Ontario were to add another 8 per cent retail sales tax, the effect on the industry could be devastating. More significant is the impact on our culture. Higher prices for books and magazines discourage Ontarians from reading, limit libraries from adding to their collections, and do not help improve the province's serious illiteracy problem.

If Ontario truly values literacy, then it must ensure fairer tax treatment for books and magazines, make reading materials more competitive, and stimulate domestic sales. ACCISS recommends:

RECOMMENDATION 21

The federal and provincial governments remove any taxes on reading materials.

- Ontario's Minister of Finance urge the federal government to ensure that any revised tax system which exempts other products or services also exempts reading materials.

In developing a strategy for Ontario's cultural industries, ACCISS had to address the issue of ownership. Few people would argue about the importance of having Canadian authors, performers and creators represented on our newsstands, in our bookstores and on our screens and airwaves. But is it important that the firms that produce and distribute cultural products be owned by Canadians?

ACCISS believes it is important to have strong Canadian-owned firms involved in production and distribution because such firms have been demonstrably more likely than foreign firms to produce and distribute works involving Canadian authors and performers. A policy that encourages Canadian ownership of cultural firms will provide more opportunities for Canadian creative expression.

A more important reason to have a strong and diverse group of Canadian-owned firms involved in our cultural industries is to ensure that the ultimate decisions about developing and distributing our cultural products are made by Canadians and financed from Canadian resources. This is not to say that foreign-owned firms in Canada never create or distribute Canadian works. It is true that some foreign-owned firms do stimulate the economy, providing jobs and training to Canadians. It is also true that some Canadian-owned firms do not produce or distribute Canadian-authored works to the extent one would hope. Still, ACCISS believes our cultural interests are better served by having a number of diverse, healthy, Canadian-owned firms involved in production and distribution. Firms owned by Canadians know this country and its creative resources best. But they need the cash flow provided by distribution activities to develop those resources.

Within the cultural industries, a few profitable books, sound recordings and films tend to subsidize many that are not commercial successes. "Script and concept" funding for new projects and creators is the riskiest to obtain and, in the commercial sector, is generated by market successes. That is why it is important for Canadian firms to own libraries of diverse products and the copyrights that go with them. When copyrights and cash flows end up in foreign-owned firms, the decisions about future investment and development are made by owners outside Canada who may choose to take the profit from a successful Canadian product and invest it in developing a product in another country. In this case, Canadians are not using successes to reinvest in themselves and Canadian cultural sovereignty is not well served.

Most countries consider some activities, such as broadcasting and telecommunications, so critical to national sovereignty that they can only be owned by national firms. Even the United States, which has one of the most open markets, has such restrictions in its federal communications legislation. In Canada, we have federal laws that require Canadian ownership in broadcasting, cable television and basic telecommunications as well as a number of legislative provisions that encourage or require Canadian ownership of newspaper and magazine publishing. We also have provincial laws that require that paperback and periodical distributors be Canadian-owned.

ACCISS believes that, in the cultural industries, ownership does matter. By strengthening Canadian-owned, Ontario-based cultural firms, we can significantly improve the long-term health of our cultural industries and their capacity to create and share Canadian expression.

Trade Issues

The laws and rules that countries devise to regulate trade also have an impact, making their producers either more or less competitive in markets at home and abroad.

In developing a strategy for Ontario's cultural industries, it is important to examine the extent to which our cultural products and services — and our ability to assist and protect them — are affected by international trade agreements.

In the Canada-U.S. Free Trade Agreement of 1988, Canada obtained a “cultural industries exemption” which was incorporated into the 1994 North American Free Trade Agreement (NAFTA). The exception “grandfathers” existing assistance and protection measures for Canadian cultural products and services and preserves the ability of Canada and its provinces to introduce new measures to protect our cultural industries.

In the recently completed Uruguay Round of the General Agreement on Tariffs and Trade (GATT), which was extended to include trade disciplines on services, investment and intellectual property, Canada did not make commitments that would affect its ability to maintain existing measures or introduce new measures for the cultural industries. In fact, despite enormous pressure from the United States, the European Union also declined to make commitments respecting audio-visual services that would have limited its members' ability to keep their programming from being overwhelmed in the market.

There is a growing consensus among many of Canada's major trading partners that cultural products are not like other commodities in trade, and that special measures may be necessary to ensure that indigenous cultural industries are able to thrive. ACCISS considers it essential that Canada maintain its ability to protect its cultural sovereignty by means of appropriate government measures, whether federal or provincial.

Recognizing the value of strong Canadian-owned cultural industries, ACCISS has recommended a strategy that strengthens Canadian-owned firms and their position. In the committee's view, policies that only support the creation of Canadian works and do not strengthen the viability of Canadian-owned firms and their important role in developing Canadian content is short-sighted.

Two issues affecting our trading environment that are of particular concern to our cultural industries are:

- competition from so-called “split-run” magazines; and,
- foreign domination of film distribution.

Split-Run Magazines

Split-runs, the practice of producing a Canadian edition of a foreign publication — is one of the most serious trade issues for Ontario's magazine industry. In split-runs the editorial content is almost the same in the Canadian edition, but the original ads are replaced with Canadian advertising. In the past, provisions of the **Income Tax Act** and the Canadian Customs Tariff Code kept split-runs from entering Canada and helped protect the market for Canadian magazines. However, new technologies now enable foreign companies to work around the

customs code by transmitting the editorial content for a split-run electronically into Canada where it is modified, printed and then becomes a "Canadian" product.

Because production costs are recovered in their home market and very little Canadian editorial matter is included, companies publishing split-run editions can offer lower cover prices and lower advertising rates than Canadian magazines. With split-runs, all advertising revenues go to the foreign company and there is limited Canadian content in the publication. And advertising that would otherwise have gone to a Canadian publication is diverted to a non-Canadian periodical.

A federal task force recently completed a study of the Canadian magazine industry and the impact of split-runs. Its recommendations try to strike a balance between maintaining an open international market and promoting a distinctive Canadian identity and culture. The report's key recommendations were:

- Impose an excise tax on magazines distributed in Canada that contain advertisements primarily directed at Canadians and editorial content substantially the same as the content of the magazine not primarily directed at Canadians. The tax would be payable by the printer or distributor of those magazines.
- Levy the tax on a per issue basis, equal to 80 per cent of the amount charged for all advertising appearing in that issue.
- Make magazines, which would otherwise be subject to the proposed tax, exempt at the number of issues per annum that were distributed in Canada in 1993 (i.e. only tax new sales).

In addition, the report recommended that:

- all Canadian governments be encouraged to use their advertising budgets to support the magazine industry;
- the postal subsidy for Canadian magazines be maintained; and,
- the GST on reading materials be eliminated.

It is worth noting that the measures proposed by the federal task force would not violate any of Canada's international trade agreements, even without the cultural exemption. This is because the excise tax does not require domestic content but promotes original content, regardless of the country of origin of the magazine or the author.

Ontario may be able to influence the environment for split-runs through its **Paperback and Periodical Distributors Act (PPDA)**. The Act requires that any company distributing paperbacks and periodicals in Ontario be registered. To qualify for registering, a company must be 75 per cent Canadian owned or meet Canadian residency requirements. Through significantly expanding the scope of the Act, Ontario could make it an offence for a distributor to distribute to newsstands in Ontario a split-run edition of a foreign magazine, using the criteria proposed in the federal task force report.

To provide a fair trade environment for Ontario's magazine publishers, ACCISS recommends:

RECOMMENDATION 22

Ontario work with the federal government

to inhibit split-run editions of foreign periodicals.

- The Minister of Culture, Tourism and Recreation endorse the report of the Task Force on the Canadian Magazine Industry and urge the federal government to enact as soon as possible the Report's recommended measures regarding split-run editions of periodicals.
- The Ministry of Consumer and Commercial Relations and Ministry of Culture, Tourism and Recreation, as a complement to the federal measures, jointly develop and introduce amendments to the Paperback and Periodical Distributors Act to further inhibit the distribution of split-run editions of periodicals.

Film and Book Distribution

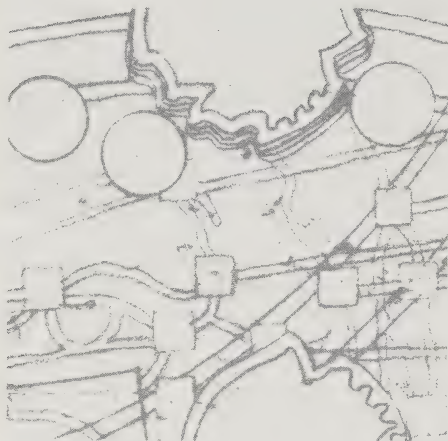
Canadian film production is too small to support a healthy Canadian film distribution industry. To succeed, Canadian distributors must be able to distribute foreign products in Canada. However, foreign-owned distributors — mainly the Hollywood major studios — continue to control the lion's share of the film distribution market in Canada. Because Canadian distributors are unable to acquire consistently the rights to distribute profitable foreign films, they generate fewer resources to reinvest in Canadian productions.

The problem is aggravated by the lack of a federal film distribution policy and by Quebec laws that prohibit Ontario-based distributors from distributing films in Quebec.

Domination by the Hollywood majors in Canada is largely due to their domination of the United States market. For practical purposes, they tend to treat Canada as an extension of the U.S. market. While it may be appropriate for them to control distribution of their own films, problems arise when they use their access to the U.S. market to obtain the Canadian distribution rights for films created by independent producers, particularly those in other countries.

In that situation, ACCISS considers it justifiable to require that independent films be distributed by Canadian-owned distributors who reinvest in Canadian film and television production. Otherwise, these distributors will always be outbid by one of the Hollywood majors with access to the U.S. market.

Access to the Quebec market for Ontario's French-language books is curtailed by



Quebec's distribution and acquisition regulations. For example, regulations respecting the development of Quebec firms in the book industry stipulate that all government departments or organizations (including schools) must purchase books solely from the accredited bookstores of their region. Any grants for publishers, distributors, or booksellers may be provided only to accredited entities. To be accredited, publishers, distributors and booksellers must be Canadian citizens and domiciled in Quebec. As a result, Franco-Ontarian book publishers must work through a Quebec distributor to sell their stock to these bookstores and institutions. Since Quebec is the largest French-speaking market in Canada, this stipulation represents a significant barrier to the development of Franco-Ontarian publishers.

To create an operating environment that supports Canadian-owned, Ontario-based film and book distributors, ACCISS recommends:

RECOMMENDATION 23

The cultural industries sector and the Minister of Culture, Tourism and Recreation seek to require that films made by non-studio independent producers be distributed by Canadian distributors who support the production and distribution of Canadian films.

- Ontario, in conjunction with other provinces, urge the federal government to develop effective national legislation for film and television product which requires the above.
- If federal legislation is not enacted, the Ontario government work with the other provinces to develop provincial legislation across the country to provide that independently produced foreign films must be distributed in the provinces by Canadian-owned companies who support Canadian production.

RECOMMENDATION 24

The Minister of Intergovernmental Affairs assign the cultural industries a high priority during interprovincial discussions to ensure the resolution of provincial trade barriers (through bilateral agreement or otherwise) which inhibit Ontario companies' ability to sell and distribute films and books freely in other provinces.

Foreign Investment Policies

Foreign investment in Ontario's cultural industries is a two-edged sword. It can lead to joint ventures and partnerships in marketing and distribution that could give Canadian products better access to foreign markets. It can also increase the revenue available to develop cultural products. However, Canadian cultural firms are also concerned that foreign investment can lead to foreign dominance, less access to domestic markets for Canadian-owned companies, a loss of control over the creative process and the unique Canadian content of their products and potential loss of our cultural sovereignty.

Investment Canada, an agency of the federal government, is designed to monitor foreign investment in Canada. Its enabling legislation states that any investment in the cultural industries may be subject to review if it is related to Canada's cultural heritage or national identity. Any application from a foreign investor to invest in an Ontario-based cultural industry is reviewed by Investment Canada with advice from the Ontario government.

In 1985, Investment Canada required that any foreign subsidiary in the book publishing field acquired by a Canadian company be sold to Canadians within two years (the "Baie Comeau" policy). In 1992, this policy was changed. Indirect acquisitions can be approved if the investment benefits Canada. To ensure that Canada will benefit, Investment Canada insists that foreign firms agree to undertake certain measures to support the Canadian cultural sector before it will approve a purchase.

In the past, Investment Canada has often accepted commitments made by foreign companies to develop Canadian artists or creators. Although this acceptance may have benefited individual artists, it has hurt Canadian-owned firms who may have developed such artists but who cannot offer the same inducements as the large foreign firms. For example, Investment Canada has encouraged multinationals to sign Canadian recording artists. While the multinational firms have provided international exposure that has helped launch individual careers, they have also bypassed Canadian-owned record labels. In certain cases, Canadian artists have been signed directly to the multinational's parent company, which means that the licensing revenues are paid directly to the foreign company and do not stay in Canada. While artists must be free to sign with any company they choose, whether foreign-owned or Canadian-owned, the long-term health of our cultural industries is not advanced when Investment Canada encourages foreign firms to focus on this type of commitment in investment reviews. Instead, the focus should be on commitments to support the Canadian-owned industry, e.g. industry award presentations, joint ventures with Canadian firms, and other activities that support the flow of licensing revenues from our successes back to Canadian-owned companies where such revenues can support the development of works by lesser-known Canadian artists.

In spite of efforts to control and regulate foreign investment in our cultural industries, the level of foreign ownership in Ontario's cultural industries remains high. To provide an equitable operating environment for Ontario-based firms and ensure that foreign investment strengthens them, ACCISS recommends:

RECOMMENDATION 25

The Minister of Culture, Tourism and Recreation and Minister of Economic Development and Trade develop a formal provincial policy regarding the issue of foreign investment in cultural industries and apply that policy to its review of Investment Canada referrals in all the sectors.

- Urge the federal cabinet to establish a national policy respecting foreign investment in cultural industries. Such federal policy should:
 - be based on the principle that any foreign investment permitted must help the Canadian-owned sector become more competitive;
 - provide that undertakings required of foreign investors focus on activities that would support the health of the Canadian-owned sector rather than divert revenues away from them;
 - provide that the federal Minister of Canadian Heritage have the right of final approval over any application involving foreign investment in a cultural industries business and the responsibility for monitoring compliance.

Government Procurement Policies

Culture and education are inextricably intertwined. Through our cultural and educational policies, we have an opportunity and an obligation to shape our children's understanding of their country and their history. To do this, we must ensure the materials used in the classroom truly reflect Canadian themes and identities. In spite of the link between culture and education, Canadian-owned publishing companies have had great difficulty penetrating the school market. The Canadian educational book market is overwhelmingly dominated by the products of foreign-controlled publishers. In 1991, they accounted for 75 per cent of English language textbook sales in Canada.

The Ontario government does have a number of policies to support Canadian textbooks in the educational market. For example, *Circular 14* is a list of recommended reading materials approved by the Ministry of Education and Training for use in Ontario schools. To be eligible for listing, a book must be Canadian-authored. If no comparable Canadian-authored text exists, foreign-authored texts can be placed on *Circular 14*. However, they are approved for a limited time only and removed if a comparable Canadian-authored title becomes available.

There are some problems with *Circular 14*, and the educational market in Ontario including:

- publishers must apply to have their books listed, and there is a large backlog;
- Canadian-owned publishers often have trouble getting on the list. For example, a small Canadian-owned firm, had a

series of books rejected by the ministry. When the company signed a distribution arrangement with a foreign-owned firm, the distributor resubmitted the same books and they were approved; and,

- For a variety of reasons, many teachers and school boards are developing their own teaching materials rather than buying items on the recommended list.

Strengthening the relationship between *Circular 14* and Canadian-owned publishers would provide a larger, more secure market needed for the publishers to invest in developing new learning materials. The field of educational publishing in Ontario is currently dominated by foreign-owned publishing firms, a situation that became worse with the federal government's recent decision to sell Ginn Publishing Canada to Paramount Communications. The investment in and development of educational materials — especially as they increasingly involve multimedia products and are paid for entirely with public funds — is too important, culturally and in terms of education, to leave to firms whose ultimate decisions are dictated by owners outside Canada.

A somewhat similar situation exists with French-language publications. Educational publishing, in this case, is dominated by Quebec-based publishers. *Circular 14* must also encourage the development of Franco-Ontarian publishers.

The committee is aware that it will take Canadian publishers several years to develop new materials by Canadian author-editor teams to serve the market. The need for topical Canadian materials is clear: school boards and teachers often develop their own collections of materials to fill perceived gaps — in some cases without obtaining copyright

clearances or going through a ministry approval process. Pending the development of those new materials, ACCISS recognizes that the materials currently listed on *Circular 14* must continue to be available to students. Therefore, existing titles and new titles introduced by foreign-owned publishers over the next five years, including later updates and revisions to those titles, should be grandfathered. After five years, foreign-owned firms could still be involved in developing a new title for *Circular 14*, provided it was through a joint venture controlled by a Canadian-owned firm.

Changes to the *Circular 14* eligibility requirements alone will not be sufficient to address this issue. If Canadian-owned publishing firms are to step in and invest in developing new materials, they need some assurance there will be a market for them. This means that the ministry and school boards must be more pro-active in choosing priority fields for new materials and in calling for proposals from Canadian-owned firms. Accepting a proposal should then trigger a minimum purchase commitment to the firm and its team of Canadian authors, illustrators, multimedia creators and editors. With this kind of support, ACCISS has no doubt that the Canadian-owned publishing sector will be able to meet demand.

To date, the primary focus of *Circular 14* has been on traditional textbooks and learning materials. As learning and curricula change to adapt to new technologies and new approaches to teaching, the focus of *Circular 14* is changing and adapting to include new learning media, and distance education tools.

To ensure that our educational materials over time properly reflect Canadian needs and are produced by Canadian-owned firms, and to safeguard the link between culture sovereignty and education, ACCISS recommends:

RECOMMENDATION 26

The Ministry of Education and Training amend its educational procurement policies and develop a coherent strategy, to be implemented over the next five years, that will encourage Canadian-owned, Ontario-based publishers to produce high quality learning materials.

- Working with the Minister of Culture, Tourism and Recreation, review and amend *Circular 14* to grandfather existing titles and those introduced over the next five years, but restrict subsequent new titles to those provided by the Canadian-owned Ontario-based publishing sector.

RECOMMENDATION 27

The Minister of Education and Training, in cooperation with Canadian-owned, Ontario-based publishing firms and Canadian creators and educators, develop and implement a comprehensive plan for introducing new media learning materials into Ontario schools, and designate funds to match industry investment in this area.

- A consortium of school boards, together with the Minister of Education and Training and the Canadian-owned, Ontario-based publishing sector, jointly implement a pilot project to develop new media learning materials and software in selected curriculum areas.

All government departments and agencies represent enormous purchasing power. They routinely undertake commissioning of creative materials for advertising, training, communications and promotion. ACCISS believes that Canadian producers and creators should be the first to be provided with the opportunity to fill government needs. ACCISS recommends:

RECOMMENDATION 28

All Canadian-directed advertising undertaken by the provincial or municipal governments, departments, and agencies use Canadian producers.

Canadian Content Rules

Canadian Content and the CRTC

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The Canadian Radio-television and Telecommunications Commission (CRTC), through its regulations on Canadian content, has been instrumental in supporting the development of Canada's cultural industries. Canadian content requirements on television and radio have supported both the production of Canadian television programming and the development of Canadian musicians and composers in Canada.

Since they were first introduced over 30 years ago, the Canadian content rules have become more complex and sophisticated. In the 1980s, the rules required, for the first time, original hours of Canadian programming in the so-called "underrepresented" categories, such as drama (including movies, made-fors, sitcoms and other series), documentaries, children's programming and performing arts. In addition, television stations and networks for the first time were required to spend a certain amount — typically a percentage of their gross revenue — on Canadian content programs.

At the same time the CRTC imposed these requirements, stations were offered the "carrot" of added funding to produce Canadian programming through the creation or expansion of Telefilm Canada and a number of provincial agencies, including the Ontario Film Development Corporation. The application of the "benefits" test to broadcast ownership

transfers also led to the creation of a number of funds administered by private sector licensees. Early in 1994, the CRTC approved the creation of a Cable Production Fund, which will help finance Canadian programs in the underrepresented categories. Money in the fund will come from cable licensees who take advantage of a provision in the Cable Television Regulations allowing them to suspend reductions to basic rates.

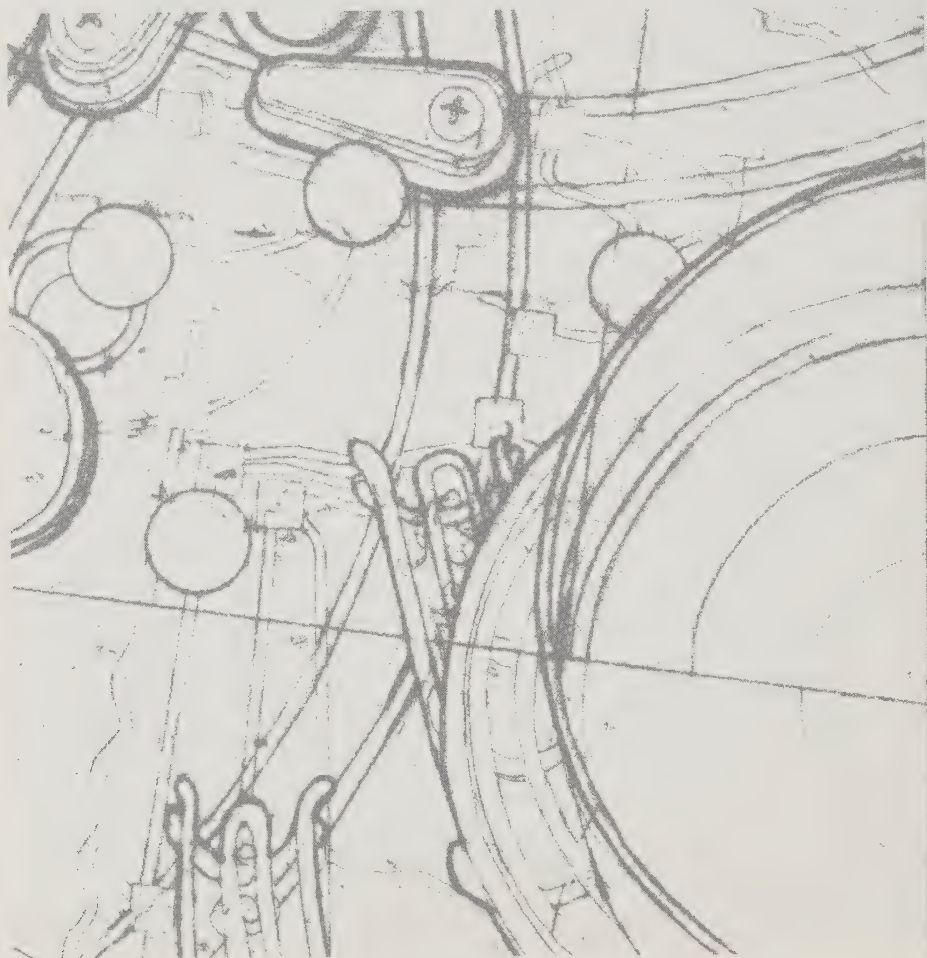
During the second half of the 1980s, many new Canadian and U.S. programming services were added to cable packages, particularly by virtue of the unscrambled "extended tier." But it was also a time when Canadian production of television drama flourished as never before, spearheaded by independent production companies that came into their own.

It is a testament to the effectiveness of the Canadian content requirements, accompanied by funding opportunities, that overall viewing of Canadian television programs in English-speaking homes actually increased significantly during the late 1980s — despite the fragmentation caused by a myriad of new services. Canadian drama is still lamentably low in terms of supply. But when properly financed and produced, Canadians are very eager to watch their own stories, told by their own writers and performers.

If there was a single theme that came through the ACCISS deliberations, it was the importance of the combined Canadian content regulation and support mechanisms now in place, and the need to enhance them. Telefilm Canada and the OFDC are seen as essential parts of the support structure, as are public broadcasters like the CBC and TVOntario. CRTC regulations and

license requirements relating to Canadian content are critical to the continued health of the television production sector.

ACCISS considered the possibility of recommending changes to the Canadian content regulations. One issue that received attention was whether it might be appropriate to stimulate an increase in co-



productions between U.S. and Canadian producers, typically financed by pre-sales to U.S. program services. While such co-productions could stimulate jobs in Canada, ACCISS did not want Canadian broadcasters to use these productions to reduce their current focus on Canadian drama productions. One answer might be to increase the drama quota otherwise applicable to Canadian broadcasters by a few points, with the understanding that co-productions with U.S. pre-sales could be used to make up the difference.

A second suggestion that is worth further study is imposing specific requirements on broadcasters on their use of programs from independent producers. The 1991 Broadcasting Act calls for the Canadian broadcasting system to “include a significant contribution from the Canadian independent production sector.” It will be important for the CRTC to ensure that any integration between broadcasting and production functions is accompanied by safeguards to ensure that independent producers are treated fairly.

On June 6, 1994, the CRTC announced the licensing of ten new Canadian specialty and pay services. A further wave of such services may well be licensed in a few years. The licensing of services of this kind is generally a very positive development for Canadian television production, provided that the Canadian content scheduling and expenditure requirements — particularly in the underrepresented categories — are meaningful.

ACCISS believes that increases in program choice to Canadian viewers on cable should now be able to come almost entirely from new Canadian services, rather than from importing additional U.S. services. Using Canadian services will support the overall

health of the cultural industries, as well as our cultural sovereignty.

While Canadian content mechanisms have worked well in the past, rapid advances in communications technology are challenging the ability of regulators to keep pace. With products like video-on-demand and pay-per-view that offer a consumer-driven/menu-driven distribution system, the focus of regulations and license conditions must be changed to be effective. Control over the “file server” and the programs loaded into it must be in the hands of Canadian licensees. License conditions imposed on the providers of video-on-demand services into the home can then focus on ensuring that the system gives preferential access to Canadian programs, that such programs are marketed as extensively as non-Canadian programs, and that a proportion of gross revenues can be earmarked to develop new Canadian programs for the system.

The language of the 1991 Broadcasting Act appears to be broad enough to encompass pay-per-view and video-on-demand programming services into the home, whether they are delivered by a local cable company, by the telephone company or by direct broadcast satellite. A number of enforcement measures are available to ensure that providers of such services obtain a license under that Act.

As distribution systems move from a traditional goods-driven marketplace to one where electronic delivery is the norm, the importance to our cultural industries of maintaining a distinct Canadian market in regard to program rights, as well as in regulating the “gatekeepers” for the systems, will increase. There will also be a myriad of other consumer issues to grapple with, including privacy and pricing issues. While these will challenge the ability of the

regulator, the province should support efforts by the CRTC and other agencies to maintain the integrity of the Canadian market. To the extent that certain systems may be held to fall within provincial rather than federal jurisdiction, consideration should be given to a delegation of authority back to the federal regulator so as to apply existing statutory policies supporting Canadian content.

To ensure that Canadian creators continue to benefit from Canadian content mechanisms, ACCISS recommends:

RECOMMENDATION 29

The Minister of Culture, Tourism and Recreation work more closely with the Minister of Economic Development and Trade and consult with the cultural industries to bring forward the Ontario government's position on matters regulated by the CRTC.

- Encourage the CRTC to ensure that license conditions for conventional (over-the-air) television broadcasters stipulate substantive expenditure requirements for each of the underrepresented categories, with a particular emphasis on drama and children's programming.
- Encourage the CRTC to ensure that newly licensed Canadian specialty services meet meaningful Canadian content requirements, particularly in the underrepresented categories; broadcasting policy support the addition of such services on an affordable basis rather than the addition of U.S. services.

- Encourage the CRTC to ensure that new delivery systems for cultural products, whether under provincial or federal jurisdiction, be subject to existing statutory principles guiding Canadian content requirements.

Relationships with Government

The cultural industries have long had a supportive relationship with the federal and provincial governments. Governments have traditionally been one of the main sources of funding for the arts sector and of funding and regulatory support for the cultural industries. Governments have generally considered these programs an investment in our culture.

Recognizing the financial realities facing government, ACCISS believes that Ontario's cultural industries will benefit most from co-operative efforts. Many provinces have recently entered into bilateral partnerships with the federal government to jointly fund certain cultural programs. With the agreements, the two levels of government set joint priorities, develop common criteria, review and approve projects together, and establish a set process for evaluating the projects funded. The industry then has a much clearer and more consistent understanding of the projects that can be supported and the process for seeking funds. These agreements differ from previous agreements in two ways:

- they involve smaller amounts of money; and,
- they focus less on major infrastructure projects and more on a broader range of cultural projects.

Because of these changes, more projects are eligible for government funding, but on a smaller scale. This approach allows the federal and provincial governments and the cultural industries to invest more effectively in a variety of efforts that will ultimately make the industries more economically viable and more competitive.

ACCISS believes that a bilateral agreement between Ontario and the federal government should focus on projects that will:

- improve access to capital, finance and technology;
- extend local, national and international distribution, marketing and promotion networks; and,
- develop human resources and products.

To strengthen and stabilize the relationship between industry and government and make the best possible use of government funds available for culture, ACCISS recommends:

RECOMMENDATION 30

The Ministry of Culture, Tourism and Recreation

negotiate a bilateral Cultural Agreement with

the federal government to coordinate and

consolidate industrial support.

- Develop pooling and coordinating criteria, applications, joint strategic planning and priorities for research, product development, marketing and distribution, capital expenditures and human resource development.

SUMMARY OF RECOMMENDATIONS FOR CHAPTER 4

Recommendation 19

The cultural industries sector and the Minister of Culture, Tourism and Recreation urge the federal government to enact the second phase of **Copyright Act** reform, particularly neighbouring rights, rights for exclusive distributors, stronger remedies, strict limitations on educational exemptions and ongoing review mechanisms.

Recommendation 20

All levels of government, schools and libraries respect authorized Canadian rightsholders when purchasing and utilizing cultural products.

Recommendation 21

The federal and provincial governments remove any taxes on reading materials.

- Ontario's Minister of Finance urge the federal government to ensure that any revised tax system which exempts other products or services also exempts reading materials.

Recommendation 22

Ontario work with the federal government to inhibit split-run editions of foreign periodicals.

- The Minister of Culture, Tourism and Recreation endorse the report of the Task Force on the Canadian Magazine Industry and urge the federal government to enact as soon as possible the Report's recommended measures regarding split-run editions of periodicals.
- The Ministry of Consumer and Commercial Relations and Ministry of Culture, Tourism and Recreation, as a complement to the federal measures, jointly develop and introduce amendments to the **Paperback and Periodical Distributors Act** to further inhibit the distribution of split-run editions of periodicals.

Recommendation 23

The cultural industries sector and the Minister of Culture, Tourism and Recreation seek to require that films made by non-studio independent producers be distributed by Canadian distributors who support the production and distribution of Canadian films.

- Ontario, in conjunction with other provinces, urge the federal government to develop effective national legislation for film and television product which requires the above.
- If federal legislation is not enacted, the Ontario government work with other provinces to develop provincial legislation across the country to provide that independently produced foreign films must be distributed in the provinces by Canadian-owned companies who support Canadian production.

Recommendation 24

The Minister of Intergovernmental Affairs assign the cultural industries a high priority during interprovincial discussions to ensure the resolution of provincial trade barriers (through bilateral agreement or otherwise) which inhibit Ontario companies' ability to sell and distribute films and books freely in other provinces.

Recommendation 25

The Minister of Culture, Tourism and Recreation and Minister of Economic Development and Trade develop a formal provincial policy regarding the issue of foreign investment in the cultural industries and apply that policy to its review of Investment Canada referrals in all the sectors.

- Urge the federal cabinet to establish a national policy respecting foreign investment in cultural industries. Such federal policy should:
 - be based on the principle that any foreign investment permitted must help the Canadian-owned sector become more competitive;
 - provide that undertakings required of foreign investors focus on activities that would support the health of the Canadian-owned sector rather than divert revenues away from them;
 - provide that the federal Minister of Canadian Heritage have the right of final approval over any application involving foreign investment in a cultural industries business and the responsibility for monitoring compliance.

Recommendation 26

The Ministry of Education and Training amend its educational procurement policies and develop a coherent strategy, to be implemented over the next five years, that will encourage Canadian-owned, Ontario-based publishers to produce high quality learning materials.

- Working with the Minister of Culture, Tourism and Recreation, review and amend *Circular 14* to grandfather existing titles and those introduced over the next five years, but restrict subsequent new titles to those provided by the Canadian-owned, Ontario-based publishing sector.

Recommendation 27

The Minister of Education and Training, in co-operation with Canadian-owned, Ontario-based publishing firms and Canadian creators and educators, develop and implement a comprehensive plan for introducing new media learning materials into Ontario schools, and designate funds to match industry investment in this area.

- A consortium of school boards, together with the Minister of Education and Training and the Canadian-owned, Ontario-based publishing sector, jointly implement a pilot project to develop new media learning materials and software in selected curriculum areas.

Recommendation 28

All Canadian-directed advertising undertaken by the provincial or municipal governments, departments, and agencies use Canadian producers.

Recommendation 29

The Minister of Culture, Tourism and Recreation work more closely with the Minister of Economic Development and Trade and consult with the cultural industries to bring forward the Ontario government's position on matters regulated by the CRTC.

- Encourage the CRTC to ensure that license conditions for conventional (over-the-air) television broadcasters stipulate substantive expenditure requirements for each of the underrepresented categories, with a particular emphasis on drama and children's programming.
- Encourage the CRTC to ensure that newly licensed Canadian specialty services meet meaningful Canadian content requirements, particularly in the underrepresented categories; broadcasting policy support the addition of such services on an affordable basis rather than the addition of U.S. services.
- Encourage the CRTC to ensure that new delivery systems for cultural products, whether under provincial or federal jurisdiction, be subject to existing statutory principles guiding Canadian content requirements.

Recommendation 30

The Ministry of Culture, Tourism and Recreation negotiate a bilateral Cultural Agreement with the federal government to coordinate and consolidate industrial support.

- Develop pooling and coordinating criteria, applications, joint strategic planning and priorities for research, product development, marketing and distribution, capital expenditures and human resource development.

The process of developing a strategy for the cultural industries was both challenging and exciting. For many who gathered around the table or who attended various consultations, it was the first time they had looked beyond the issues facing their own sectors to recognize that many concerns cut across all the cultural industries. Despite their various differences, the cultural industries are all idea-based. They often share a common workforce and a common audience. More and more, their products overlap. For example, *Kiss of the Spider Woman* began as a book, became a film and then a stage musical with a best-selling soundtrack. The cultural industries also share some methods of delivering their products and some technologies, and — with the emergence of multimedia products — the links among the sectors will grow even closer.

For all these reasons, this is a cross-sectoral strategy. ACCISS believes that the various cultural sectors face similar challenges in producing, marketing and distributing their work, and they will benefit from strategies that can be applied in all sectors.

Monitor the Strategy

In the process of developing this strategy, strong working relationships have developed among the different cultural sectors and between the industry and government. Because of their ability to strengthen the industry and help position it for the future, these relationships should be nurtured and maintained.

Only by working together can industry and government put this ambitious strategy into action and reap both the economic and social benefits of strong, healthy, Canadian-owned, Ontario-based cultural industries. The strategy itself must be implemented, assessed and, if necessary, fine-tuned to

respond to changing markets and technologies. Specific steps must be taken to ensure that it is closely linked with strategies in related sectors, including telecommunications, computing, tourism and industrial design.

The ongoing role of overseeing the implementation of the strategy and its ability to help the sectors achieve their performance targets must be shared by both industry and government and the process must be formalized.

To ensure that Ontario's cultural industries strategy fulfils its social and economic potential, ACCISS recommends:

RECOMMENDATION 31

The cultural industries and labour associations work with the Ministry of Culture, Tourism and Recreation and Ministry of Economic Development and Trade to establish an Ontario Cultural Industries Advisory Council to monitor the implementation of the strategy proposed in this report.

- Council membership include labour, artist and entrepreneur representation, as well as appointees from the executives of principal associations representing the cultural industries in the province, together with memberships from related sector councils (telecommunications, tourism and computing).
- Working with government, Statistics Canada, industry associations and unions, the Council coordinate and publish data relating to the cultural industries, particularly regarding the development of competitive benchmarks across the subsectors.

Establish Structures to Support the Cultural Industries

Although the cultural industries make a significant contribution to Ontario's economy, they are still a fairly young and underdeveloped sector. They do not yet have the formal structures and supports that have helped other industries grow and develop.

In the report, ACCISS has highlighted 31 recommendations along with over 40 tactics industry and government can use to strengthen Ontario's cultural industries. Within these, ACCISS proposes to establish three structures it believes are essential for the future of the industry:

- the arm's-length agency, which will administer the provincial government's assistance and support programs
- the Centre for Culture Industries and Technology, which will help create a strong link between the cultural industries and other sectors, such as telecommunications and computing, and help position the cultural industries to take a lead role in the emerging multimedia sector
- the Cultural Industries Advisory Council, which will oversee the implementation of the strategy and provide an ongoing industry/government forum to ensure the health of Ontario's cultural industries.

ACCISS believes that the province's cultural industries need structures such as these to help them develop, prosper and become more competitive in both domestic and international markets. Investing in initiatives that bring the sectors together and help them deal with common issues will strengthen the industry and ensure it continues to contribute to Ontario's economic health and well-being.

These are exciting and challenging times for the cultural industries. Ontario has the people, the skills, the knowledge, the expertise and the basic infrastructure it needs to develop a world-class cultural industry. It needs only the commitment to invest in, support and develop the resources already here. This commitment is a small price to pay for the richness and depth that culture adds to our lives. It is a cost that will be returned to us in jobs, economic benefits, international recognition and the satisfaction of having our stories told.

APPENDIX A - SUMMARY OF GOALS, OBJECTIVES AND RECOMMENDATIONS

GOALS	OBJECTIVES	RECOMMENDATIONS
1. Increase Canadian-owned, Ontario-based producers' share of the international and domestic market for entertainment and information products	• Invest in people	Establish a formal labour relations framework for self-employed cultural workers. Establish a comprehensive training strategy for cultural workers.
	• Improve access to finance	Develop training initiatives to improve business, marketing and entrepreneurial skills in the industry. Urge governments to ensure that cultural industries have access to all incentive programs designed to support small business and industrial development. Determine the feasibility of establishing an Expert Investment Corporation for the cultural industries under the Ontario Lead Investment Fund. Develop sector-specific programs to encourage private investment in the province's cultural industries. Urge the federal Minister of Finance to create a cultural industries refundable investment tax credit.
	• Gather better market information and consumer intelligence	Collect useful, timely and accurate market performance statistics on the cultural industries.
	• Develop a competitive edge in the domestic market	Spearhead a comprehensive domestic marketing strategy for cultural products. Exploit marketing opportunities offered by new technologies through interactive marketing, teleordering and other means.
	• Expand sales to export markets	Develop and implement initiatives designed to increase export sales of Canadian cultural products.
	• Solidify Ontario's status as a cultural and production centre	Develop a joint marketing strategy in cooperation with the tourism industry to position Ontario as a world-renowned cultural tourism destination. Develop strategies to build on the strengths of Ontario's live theatre sector. Develop and implement initiatives to support and expand Toronto's current infrastructure in order to strengthen its position as a premier North American production centre.

APPENDIX A - SUMMARY OF GOALS, OBJECTIVES AND RECOMMENDATIONS

GOALS	OBJECTIVES	RECOMMENDATIONS
2. Develop an industry/government framework that will enable Ontario's cultural industries to take a lead role in developing new multimedia products and in using new systems to distribute traditional cultural products	<ul style="list-style-type: none"> Strengthen links within cultural industries and between related sectors 	<p>Establish formal relationships with councils in the related sectors of telecommunications, tourism and computing.</p> <p>Create a Centre for Cultural Industries and Technology to encourage strategic alliances and position Ontario's cultural industries as world leaders in multimedia content for the electronic highway.</p>
	<ul style="list-style-type: none"> Develop coordinated industrial policy 	<p>Develop integrated policies appropriate to meeting the challenges of the new environment.</p>
	<ul style="list-style-type: none"> Maximize the effectiveness of current support programs 	<p>Create a single arm's-length agency to deliver core cultural industries programs including those provided by the Ontario Film Development Corporation, the Ontario Publishing Centre, the Sound Recording Investment Program and the Theatre Development Fund.</p>

APPENDIX A - SUMMARY OF GOALS, OBJECTIVES AND RECOMMENDATIONS

GOALS	OBJECTIVES	RECOMMENDATIONS
3. Create a stable, equitable operating environment for Canadian cultural industries in Ontario.	• Enact copyright reform	Enact second phase of Copyright Act reform, particularly neighbouring rights, rights for exclusive distributors, stronger remedies, strict limitations on educational exemptions and ongoing review mechanisms. Ensure all levels of government, schools and libraries respect authorized Canadian rights holders when purchasing cultural products.
	• Implement fair tax	Remove any taxes on reading materials.
	• Implement equitable trade rules	Work with the federal government to inhibit split-run editions of foreign periodicals. Require that films made by non-studio independent producers be distributed by Canadian distributors who support the production and distribution of Canadian film. Ensure the resolution of provincial trade barriers which inhibit Ontario companies' ability to sell and distribute films and books freely in other provinces.
	• Address government foreign investment policies	Develop provincial policy regarding foreign investment in the cultural industries and apply that policy to the review of Investment Canada referrals in all sectors.
	• Establish government procurement policies	Amend educational procurement policies and develop a coherent strategy, to be implemented over the next five years, which will encourage Canadian-owned, Ontario-based publishers to produce high quality learning materials. Develop and implement a comprehensive plan for introducing new media learning materials into Ontario schools, and designate funds to match industry investment in this area. Encourage all Canadian-directed advertising undertaken by the provincial or municipal governments, departments, and agencies use Canadian producers.
	• Improve Canadian content mechanisms	Bring forward the Ontario government's position on matters regulated by the CRTC with respect to underrepresented categories and to Canadian content on newly licenced specialty services and new delivery systems.
	• Stabilize and strengthen relationships with government	Negotiate a bilateral Cultural Agreement with the federal government to coordinate and consolidate industrial support.
Conclusion	• Monitor the cultural industries strategy	Establish an Ontario Cultural Industries Advisory Council to monitor the implementation of the strategy proposed in this report.

APPENDIX B - SECTOR PROFILES

Ontario's cultural industries include book publishing, magazine publishing, sound recording, film and television production and commercial theatre production. The following sections describe each of these sectors, their position in the marketplace, the impact technology is having on the sector and their operating environments.

Book Publishing

Ontario's book publishing industry consists of over 150 companies employing over 5,000 people, with annual sales of more than \$870 million. The majority of these firms (77 per cent) are located in and around Toronto, and they account for over 90 per cent of book revenues.

With about 60 per cent of Canadian book sales, 70 per cent of Canadian publishing-related jobs and 61 per cent of new books published in Canada, the Ontario industry is the largest proportion of the sector.

Between 1987 and 1991, total book sales by Ontario-based companies increased 53 per cent. With the recent recession and the introduction of the Goods and Services Tax (GST) on books, sales levelled off.

Foreign ownership is a fundamental issue in the English-language book publishing industry. Twelve per cent of Canada's English-language publishing firms are foreign-controlled, but they account for 57 per cent of total sales in Canada. They tend to be large and, because of their links with firms in other countries, better financed. Foreign-controlled firms often use their Canadian-based arm to market books developed by their parent company, and are less likely to publish Canadian authors or export Canadian titles.

The Marketplace

Compared to other provinces, Ontario's book publishing sector is highly competitive in the domestic market, and has successfully kept pace with productivity improvements in the industry. In most years, Ontario publishers have achieved higher productivity (defined as sales per employee) than the national average for this sector.

However, the domestic market is so small that many publishers find it difficult to recover the cost of producing a Canadian book from this market alone. To survive, the companies often depend on the sales of foreign books that they have the rights to distribute in Canada. Subsidiary rights are a growing source of income for Canadian publishers.

In their struggle to improve market share, Ontario's book publishers face several challenges:

- higher production costs
- a small domestic market
- a domestic market spread over a large geographic area, which creates distribution problems and increases distribution costs
- a domestic market that is dominated by books authored and produced outside Canada
- a highly competitive global market
- problems attracting investment and financing.

The educational market is dominated by U.S. branch plant companies. The market has been adversely affected by the drop in library and school board purchasing budgets.

Along with other Canadian publishers, Ontario companies are making headway in

the Pacific Rim, Eastern Europe and the United States of America. Between 1987 and 1992, direct book exports grew by 70 per cent compared to increases of 12 per cent in Canada's merchandise exports. Our book publishers have been particularly successful in marketing high quality Canadian titles outside the domestic market.

Canadian publishers have been particularly effective in developing niche markets, such as children's books, feminist work and gay and minority presses. The dramatic increase in such exports over the last few years has helped offset the effects of a sluggish domestic market. Trade organizations, which market for publishers, and cooperative ventures, such as the Association for the Export of Canadian Books, have played a key role in helping develop export markets. There is also a growing trend among smaller book publishers to establish formal and informal corporate networks in an effort to cut costs and provide better service.

Until the federal government introduced the Goods and Services Tax, books were sales tax exempt. Publishers report that the GST, combined with the recession, has had a negative impact on the industry and reduced book sales by between 10 and 15 per cent.

The industry's main competition — at home and abroad — comes from the United States and Britain. About 79 per cent of the books imported into Canada come from the United States, and Canada is the largest export market for U.S. books.

Imported product accounts for 60 per cent of the Ontario market. Of the 358,190 book titles published in 1988, worldwide, 7,550 or 2.1 per cent originated in Canada.

Technological Advances

Advances in computer technology are allowing publishers to reduce pre-production costs and open new markets and expand audiences. The fastest growing market will likely be the "electronic book," which puts an immense amount of information on a compact disc, combines print, video and music, and plays on a CD-ROM player. Although computers will not replace books, they are well on their way to replacing the print market for dictionaries, encyclopedias, journal abstracts and reference works of all kinds.

Technology is also changing the expectations of book buyers in Canada. The availability of high-technology based services from U.S. book wholesalers has put pressure on Canadian publishers/agents to provide better information service. In response, the Canadian industry has used federal and provincial government assistance to establish the Canadian Telebook Agency (CTA), an electronic database and pilot CD-ROM ordering network to link booksellers and publishers.

The Operating Environment

Ontario's book publishing industry is supported by a wide range of provincial and federal programs and subsidies:

- The Ontario Publishing Centre, which provides project grants for marketing, technology upgrades, administrative consulting and so on. The centre also administers the Book Publishers' Assistance Program, which provides loan guarantees and interest subsidies;
- The Ministry of Culture, Tourism and Recreation, which provides operating grants to key trade organizations;
- The literature offices of both the

- Ontario Arts Council and the Canada Council, which provide block grants;
- The Ontario Ministry of Education's *Circular 14*, which lists educational materials approved for use in elementary and secondary schools and insists that, whenever possible, these materials be written by Canadians, printed, bound or manufactured in Canada and available through a Canadian-based agent or distributor;
- Provincial tax policies that have exempted books from the provincial sales tax;
- The federal Book Publishers Industrial Development Program;
- Cultural Industries Development Fund administered by the Federal Business Development Bank, which provides equity and conventional loans to eligible book publishers;
- the Publications Distribution Assistance Program (PDAP), a replacement for the postal subsidies;
- Guidelines for the **Investment Canada Act** that attempt to control foreign ownership of the industry.

Conclusion

In spite of some very real challenges and problems, it is an exciting time to be a book publisher in Canada. Given new markets, new technologies, Canada's internationally recognized writers, the sophistication of the industry and the emerging multimedia forms, Ontario's book publishing industry is in a strong position to take advantage of the opportunities offered through a comprehensive sector strategy.

Magazine and Periodical Publishing

Ontario's magazine publishing industry consists of almost 700 titles. It employs over 3,300 people directly, with a considerable amount of ancillary employment, and has annual revenues of about \$500 million. With about 47 per cent of Canada's periodicals, 53 per cent of the country's magazine-related employment and 60 per cent of revenues, Ontario dominates the Canadian industry.

In Canada, the average household increased annual spending on magazines from \$41.20 in 1982 to \$66.00 in 1992, which was an increase of 60 per cent. Total circulation of Canadian magazines has remained relatively fixed at more than 500 million copies over the last five years, with readers choosing among a growing variety of titles.

Largely due to the difficult economic climate, the number of magazines now published in Ontario has dropped from 749 in 1988 to 671 in 1992, and advertising revenues are down. The magazine sector is particularly affected by any downturn in the general economy because of its reliance on advertising dollars. As businesses in all sectors of the economy reduce their marketing budgets, magazines lose their major source of revenue. In Ontario, the situation has been particularly difficult. Its magazine publishers usually earn most of their revenue from advertising, compared to 65 per cent in the rest of Canada. With sales and revenue down, many publishers have raised prices and reduced operating costs to remain viable.

The Marketplace

With many of the 14,000 (estimates are that approximately 3,000 are regularly imported into Canada) magazines published in the United States available in Canada, domestic publishers must compete for their share of the domestic market with U.S. titles that enjoy much greater economies of scale. Most U.S. magazines recover their production and development costs with their sales in the U.S. market. Sales in Canada simply add to their revenues. In contrast, Canadian publishers must recover all their editorial, administrative, production and distribution costs from their sales in Canada.

More than 60 U.S. magazines have a paid circulation in Canada of more than 25,000. U.S. titles dominate the newsstand and account for more than 80 per cent of the single copies of English-language magazines sold in Canada. However, newsstand sales can be distorting. Of the total domestic sales of \$1.44 billion, about 45 per cent or \$650.5 million are from imports. In total, Canadian publishers provide 55 per cent of all English-language publications distributed in Canada – mostly through subscription.

However, figures for domestic market share can be deceptive. A number of magazines that are called “Canadian” are, in fact, Canadian editions and adaptations of U.S.-based titles such as *Time Magazine*, *TV Guide* and *Reader's Digest*.

Most Canadian magazines are designed for the Canadian reader and have limited appeal in other countries. Only a small number of specialty publications, such as *Owl Magazine*, have successfully developed export markets. According to Statistics Canada, exports account for only about 7 per cent of total magazine revenues.

Technological Advances

To keep pace with their U.S. rivals and reduce their costs, Ontario's magazine publishers must make effective use of technological advances in the industry, such as computerized prepress, more sophisticated use of database marketing and the selective binding capabilities of Ontario printers. The growing trend to produce magazines on computer, in digitized formats, helps reduce production costs. It has an added advantage because it puts magazine content into a form that can be easily used on the new telecommunications networks or information highways now being developed. The new technologies will create exciting opportunities for Ontario's magazine publishers. But, to invest in these technological advances and take advantage of their benefits, the companies must be adequately capitalized.

The Operating Environment

Magazines depend heavily on advertising revenues to survive. Most magazines generate about 65 per cent of their revenues from advertising. For this reason, discussion about advertising revenue tends to dominate the sector.

Advertising “spill” from the U.S. market limits the advertising dollars available to Canadian publishers. Companies that sell products on both sides of the border are more likely to put their advertising dollars into U.S. publications because they believe that this is the most effective way of reaching Canadian consumers. These companies spend, as a percentage of sales, significantly less on advertising in Canada than domestic firms. With the recent soft Ontario economy, many companies have also shifted their promotion spending from magazines to trade and consumer promotions, and this

has weakened the magazine advertising market.

With their small domestic market, Ontario publishers attract less advertising and have higher production costs per page than their U.S. competitors and, therefore, have lower operating margins and lower profits. The combined impact of these market factors and a soft Ontario economy has made it difficult for the sector to find the investment it needs to play a full part in the rapidly changing communication market.

To compete successfully in their domestic market, the Ontario magazine publishing industry must compete at international standards of product quality and productivity, although price is set outside the domestic market. To do this, the industry needs the revenue from all magazine advertising aimed at Canadian consumers as well as the profit margins that will enable publishers to attract the investment required.

In an effort to provide a level playing field for Canadian publishers, the federal and Ontario governments have provided a number of support mechanisms:

- the special postage rates that have been in place for more than a century have helped Canadian publishers build a strong subscription base;
- the Publications Distribution Assistance Program, which has now replaced the postal subsidy program;
- the **Income Tax Act** provides a tax credit to Canadian companies who advertise in Canadian magazines, but prohibits Canadian companies from deducting the cost of advertising aimed at

Canadians, which is placed in a U.S. publication;

- Tax Item #9958 prohibits foreign publishers from importing split-runs — Canadian editions of foreign publications that have the same content but replace the original ads with Canadian ones. In Canada, this item has not prevented split-runs from being “beamed in” and printed in Canada;
- the federal government’s Cultural Industries Development Fund, which is administered by the Federal Business Development Bank and provides equity and conventional loans to eligible magazine publishers;
- the Ontario Publishing Centre provides project grants to the magazine industry for marketing, technology and business training;
- Ontario’s **Paperback and Periodical Distributors Act** only allows distributors who are Canadian residents and corporations that are 75 per cent owned by Canadian residents to distribute magazines and paperbacks in Ontario, with the exception of a number of foreign distributors who have been grandfathered; and,
- additional support is also provided to the magazine sector by the Ontario Arts Council and the Canada Council.

In the past, magazines were exempt from any federal sales taxes. With the introduction of the Goods and Services Tax (GST), this is no longer the case.

According to the recently released federal government task force report on the Canadian magazine industry, governments should continue to support policies and programs, such as postal subsidies, that will help domestic publishers compete and eliminate those, like the GST, that make them less competitive.

Conclusion

Even though they have low profitability among Ontario's cultural industries, magazines are a success story because of their large market share. The challenge is to increase the market share and profit margins, while increasing revenues from advertising and expanding export markets if possible.

Sound Recording

The sound recording industry is comprised of a number of stages or operations including production, distribution, marketing or promotion and retail. Ontario's sound recording industry consists of 98 record labels. In 1991/92, these labels employed about 1,478 people, produced 6,391 sound recordings and had annual sales of over \$420 million.

Ontario is the centre for the sound recording industry in Canada. Over half of all sound recording activity takes place here. In addition, Toronto is the third largest city in North America — after New York and Los Angeles — for number of live music venues.

Canada is rich with great musical talent. Many, like **Oscar Peterson, R. Murray Schaeffer, Jane Siberry, Bruce Cockburn, Blue Rodeo, The Holly Cole Trio** and others, have brought and continue to bring economic and cultural prominence to

Ontario. The new generation of talent, including musicians and performers from diverse cultural communities such as Native/First Nations, Black and African Canadian, Indian and Chinese, is also as exciting.

Canadians' demand for sound recording product is strong. Between 1982 and 1991, when the GDP grew by 83 per cent, retail sales in the sound recording sector expanded by 100 per cent. Between 1988 and 1992, revenues from Ontario's sound recording industry grew steadily due to the proliferation of compact discs. The recession had virtually no impact on this sector, which has been highly profitable. The pattern in Ontario and Canada was different from the United States and the United Kingdom where, between 1990 and 1991, sales of sound recordings fell 11 per cent and 7 per cent respectively.

Despite Canada's wealth of talent and strong demand for product, the state of the Canadian-owned sound recording industry is fragile at best and needs to be strengthened to take advantage of these conditions. The major challenges of independent sound recording companies include: access to distribution, financing, competing against popular foreign product, and strong copyright protection.

The Marketplace

The sound recording business in Canada and Ontario is dominated by six foreign-owned multinationals. They control 84 per cent of the domestic market in sales of product and they also control national distribution. These larger companies enjoy certain economies of scale and achieve profits that far exceed the smaller Canadian-controlled competitors.

However, most new Canadian talent is developed by the Canadian-owned independent record labels. By 1991, they were producing about 79 per cent of Canadian content recordings – a disproportionately high amount given their small (16 per cent) market share. However, Ontario-based independents have lost considerable ground in recent years because of foreign investment policies developed by Investment Canada which have severely weakened the competitive position of the Canadian-owned sector.

Ontario-based, Canadian-owned companies also suffer from limited venture and working capital and are unable to undertake marketing campaigns of the scale necessary to compete with foreign product.

While the domestic market is important to Canadian companies, many Canadian artists and companies have successfully entered the international market. Given the size of the Canadian market, few projects can expect to recoup their expenses from the domestic market alone. The situation in Ontario is similar to that worldwide. The same six companies account for 87 per cent of the global sound recording market. A vast number of small independent companies account for the other 13 per cent. While the world-wide industry is highly concentrated, foreign sales, which involve little of no expense, can play a significant role in financing an Ontario-based company. Newer markets include Korea, South Africa, Mexico and others.

Technological Advances

Advances in technology have had a significant impact on this sector. Compact discs have replaced cassettes as the most common consumer format. Digital technologies have revolutionized how and where sound recordings can be made.

In the past, Ontario-based firms have been innovative enough to keep pace with technological change and new products. The essential difference is the additional cost associated with production in multiple formats. Ontario-based manufacturing companies have responded as well to these changes. One Ontario compact disc manufacturer has captured a significant market share and is likely to dominate the growing markets for CD-ROMs and laser discs.

The growing trend to digital sound will also change how sound recordings are distributed. Cable operators will be able to distribute music via satellite without advertising. This new distribution medium will compete against traditional broadcasters, who themselves are working toward digital audio broadcast (DAB).

With these new digital formats and distribution systems, it will become even more difficult for the sector to ensure levels of Canadian content and protect copyright through prevention of home taping and pirating of sound recordings. The CRTC is currently reviewing its decision to license satellite-to-cable music services in Canada based on a need to ensure appropriate access to Canadian content.

The Operating Environment

A number of government measures are used to support the industry and protect the creator's rights. Under the federal **Copyright Act** and in most developed nations, it is illegal to reproduce or perform a song without permission from the person who holds the copyright. The federal government made revisions to the Act in 1988, however, substantial revisions still need to be made in order to provide more comprehensive protection to creators in the sound recording industry. Neighbouring rights and a home-taping levy are expected in the upcoming Phase II amendments.

Both the federal and provincial governments provide assistance programs to support the sound recording industry. The Foundation to Assist Canadian Talent on Record (FACTOR), which is funded through the federal Sound Recording Development Program along with support from Canadian broadcasters, focuses on supporting the production and development of Canadian artists. The Ontario government provides association operating support and recently started a marketing grants program for Ontario-based record companies. Probably the single most effective program in supporting and promoting Canadian talent is the Canadian Radio-television and Telecommunications Commission's Canadian content rules for radio and music video television. For example, Canadian broadcasters are required to play at least 30 per cent Canadian content. The industry strongly states that Canadian content rules have played a significant role in developing Canada's internationally recognized sound recording industry.

Conclusion

The indigenous sound recording industry has shown great promise. Its future, however, is being over-shadowed by three challenges – the need to sustain competition with Canadian-based multinationals for Canadian talent, the need to access capital to strengthen their overall activities, and the resolution of royalty levels related to compensation for the use of music in new digital delivery systems.

Film and Television Production

Ontario's film and television sector consists of 250 companies. In 1991/92, the sector employed over 2,800 people and had revenues of over \$270 million. It includes:

- feature and documentary film production
- television program production by independent producers
- in-house television production by networks
- cable television network production
- television commercial production
- foreign location production
- labs, studios and post-production facilities
- distribution of films and television programs.

Film and television is the only cultural sector in Canada where Ontario does not provide the predominant amount of production among the provinces. Until 1988, about half of the films made in Canada and half of the people who work in this sector were in Ontario. Over the last five years, that percentage has dropped to 27 per cent and 20 per cent, respectively. Right now a higher

proportion of the films and television shows being produced and distributed are being made in other provinces, particularly Quebec and B.C. However, the figures are not as bleak as they seem. While Ontario has lost some employment, it has lost predominantly low-paying, part-time jobs and has kept the higher quality, full-time positions.

Most Canadian film and television producers are small independent producers. Only a handful are medium or large companies that have achieved some financial stability. The sector relies, to a great extent, on making television commercials to fill the gaps between film productions.

The sector's strengths lie in television production, documentaries, animation, children's programming and educational programming.

The Marketplace

In 1989/90 foreign-controlled distribution companies accounted for 48 per cent of all revenues in Canada. Canadian films accounted for 4 per cent of theatrical distribution revenues and 7 per cent of video rentals. In addition, U.S. programming accounted for 75 per cent of Canadian viewing. Major foreign firms operating in Canada include MGM, 20th Century-Fox, Paramount Communications, Walt Disney, MCA, Warner and Sony. Ontario firms that have developed a strong position within the industry include Alliance Communications, Atlantis Communications, Nelvana Ltd., Primedia, and Sullivan Films.

Suppliers of Canadian television programs include the production divisions or affiliated companies of the major North American networks and film studios and independents.

Distribution of feature films represents a major challenge for Canadian producers. The poor performance at the cinema is related to the foreign control of access to distribution. Canadian producers depend upon pay-tv, home video and television and international license fees to recoup investments. This is further aggravated by the key role that exhibition at movie theatres has on sales through other outlets, and without that initial exposure Canadian films are at a disadvantage when competing with foreign products.

The integrated nature of the Canada-U.S. distribution network outside of Quebec results in Canadian distributors not having the opportunity to bid on the Canadian distribution rights for third-country films. Quebec distribution also presents problems for Ontario-based distributors because only Quebec distributors can distribute films in Quebec (with an exemption granted to the U.S. majors).

Distribution of television programming is quite different, particularly since all broadcasters in Canada are required to carry a certain percentage of Canadian programming as part of the terms of their broadcast license.

Broadcast license fees generally provide anywhere from 15 per cent to 30 per cent of a television program's budgeted production costs. The remaining percentage is referred to as the production deficit. The production deficit is typically financed through the combination of industry incentive programs including grants, equity investment and tax incentives, advances from distributors and private investment. A production company will license the right to broadcast a program to a combination of Canadian and foreign broadcasters, including networks, cable systems or television stations in the first-run syndication market. After the initial network,

cable licensing or first-run syndication period, the program is available for further commercial exploitation on cable specialty services and/or in strip syndication. A series which reaches the number of episodes required to be eligible for strip syndication can generate substantial additional revenue without further cost.

Feature films are financed through a combination of presales and investments through industry incentive programs. For example, in Alliance's recent prospectus, the budget of a Canadian film included 50 per cent from Telefilm, 27 per cent from the OFDC. Of the remaining 23 per cent, 10 per cent was financed by the deferral of fees payable to creative personnel, with the remaining 13 per cent financed by the distributor in consideration for the acquisition of worldwide distribution rights to the film.

Technology

Technology is affecting film through distribution channels and product format. Digitalization and digital compression are both increasing the capacity of cable television and direct-to-home satellites. The fragmentation that is occurring with the proliferation of video options is causing financial pressure on the networks in both Canada and the United States. In addition, with the high penetration of VCRs in Canada at 70 per cent and the desire of telecommunication firms to deliver video quality transmissions in order to access the home-entertainment market, the trend will likely continue for the foreseeable future. While there has been a great deal of concern expressed about technology, the increasing options may expand the opportunity and availability of video products and increase the overall market, provided that access to Canadian programs is assured by regulation of licensing.

The Operating Environment

Independent production has been greatly enhanced by funding from both the federal and provincial governments. Telefilm Canada and the Ontario Film Development Corporation provide direct financial support for programming and Ontario's Film Investment Program provides investment rebates to support production development. These funds have been a significant boost for the industry and have resulted in the number of production firms increasing from 300 Canadian firms in 1980 to more than 700 in 1990, the majority of which are Ontario-based.

Production of high quality programming is still prohibitively expensive relative to the size of the market. This requires that producers form alliances with co-producers in other markets in order to expand their revenue base. To assist in this process, Canada has signed co-production treaties with more than 23 countries. Under these agreements, a film or television production produced under the terms of the treaty qualifies as domestic content in each of the co-producing countries, thereby enabling producers to access financial support from both countries. These agreements have been viewed by the United States as a trade irritant.

International

International markets as a whole are becoming more and more dominated by U.S. films. The U.S. share of the French market has increased from 30.8 per cent in 1981 to 58.7 per cent in 1991. Similar trends are happening in other key markets such as Britain (85 per cent to 89 per cent), Japan (30 per cent to 49.7 per cent) and Germany (52.9 per cent to 77.0 per cent).

International television is experiencing dramatic growth fuelled by the introduction of new television broadcast systems outside of North America. Over the last ten years, governments have encouraged a major expansion of this growth through the deregulation of the broadcasting industry and through the licensing of private stations. During this period Italy added two television services; France six; Germany six; and the United Kingdom four. The revenue for television in Europe is expected to increase from approximately \$22 billion in 1991 to \$45 billion in 2001.

Internationally the number of televisions is projected to grow from 700 million in 1992 to over 1 billion by 2005. Changes in delivery technology are occurring at similar rates worldwide with increasing VCR and cable penetration.

Conclusion

While there are a number of technological and competitive challenges facing the Ontario film industry, the worldwide growth in markets for quality programming, the current regulatory environment and the skills based currently available from Ontario producers and craftspeople will provide the Ontario film and television industry with continued growth opportunities in the foreseeable future.

Commercial Theatre

Ontario's commercial theatre sector has grown rapidly over the past 10 years and flourished. The 33 active theatre companies employ about 2,000 people in Ontario and their productions generate more than \$130 million in revenue each year. This growth is due to the large pool of experienced actors, directors and producers developed through the province's excellent non-profit theatre sector; the increase in the number of venues available, particularly in Toronto; an increase in consumer spending on live performance; and the sector's ability to attract visitors from outside Ontario.

The success of commercial theatre depends on the actual product, financing, the venue and marketing.

The Marketplace

Ownership is largely Canadian. Key firms include Live Entertainment, Mirvish Productions, Concert Productions International. These firms are based in Toronto.

While virtually all commercial theatre producers are Canadian, those generating the majority of revenues are importing large musical productions written and produced either in the United States or Great Britain. *Phantom of the Opera*, *Cats*, *Les Misérables*, *Showboat* and *Miss Saigon* are all examples of Canadians purchasing the Canadian rights and staging these productions. Foreign roadshows do continue to visit Ontario and are an important source of revenue for facilities such as the O'Keefe, Centre in the Square and Hamilton Place.

To date, Canadian-authored plays have not been the mainstay of commercial projects in Canada. However, there have been more and

more exceptions such as *Love and Anger*, *Dry Lips Oughta Move to Kapuskasing* and *Unidentified Human Remains and the True Nature of Love*. The recent run of the Canadian-authored *Napoleon* represented a departure from the traditional role of Canadian stage productions, and with a successful run in London could result in a major structural change in the relationship between Canadian and foreign productions in Canada.

Availability of appropriate-sized venues is an issue. The shortage of facilities that are available for long production runs reduces flexibility and causes major scheduling problems. This shortage prompted Live Entertainment to renovate the Pantages Theatre for *Phantom of the Opera* and Mirvish Productions to build the Princess of Whales Theatre to host *Miss Saigon*.

Investment in the sector is typically in the form of "limited partnerships," self-financing, bank loans and from individuals. Attracting investors has been identified as a major issue for commercial theatre.

New York and London are still the two major theatre centres internationally, with New York maintaining approximately 35 per cent of the total North American market and Toronto a distant second at 10-12 per cent of the market. The combined gross receipts for New York and its touring shows reached \$1.044 billion (U.S.) in 93/94, topping the billion dollar mark for the first time. Broadway's gross topped \$356 million, while touring show receipts including revenues from Toronto productions totalled \$688 million, both new records.

Direct trade is not a significant component of the sector but Canadian productions have toured the United States, and Live Entertainment's production of *Kiss of the*

Spider Woman is currently playing in New York and their production of *Showboat*, will open on Broadway in October, 1994.

The importance of the U.S. market for commercial productions has resulted in significant advertising expenditures by Canadian producers in the United States. The impact that this has had on the number of U.S. visitors has helped maintain cultural tourism activity levels while other sources of tourist activity have been adversely affected by the recession.

Surveys indicate that 60 per cent of the audience for commercial productions are from out of province. Thus, the negative balance of payments from the purchase of Canadian rights for productions is offset by tourist expenditures.

Technology

Technology is having a major impact on backstage support and presentation in commercial theatre. Computerization of production facilities, the introduction of laser lighting and digital technology has placed increasing pressures on producers to undertake lavish set designs, thereby increasing the upfront production costs and raising the threshold of entry into the sector.

The Operating Environment

Commercial theatre has had fewer subsidies and less support than any of the other cultural industries. The major companies are all privately-held and responsible for finding their own investors.

The only exceptions are the Elgin and Winter Garden Theatres, which were purchased by the Ontario Heritage Foundation in 1981. The government bought the theatres to preserve an Ontario

landmark and to encourage theatre productions intended "to achieve both economic return and critical acclaim." In the agreement between the government and the management company, \$.50 of each paid admission goes to the Ontario Heritage Foundation and will be used to support the development of commercial theatre in Ontario. The fund is now at a level where some of it could be used to fulfil its purpose.

Although the government does not give commercial theatres direct subsidies, it has adjusted some tax policies to help the theatres stay competitive. For example, theatres with fewer than 3,200 seats are currently exempt from the 10 per cent Ontario admissions tax. This exemption has been extremely important to producers because it has allowed them to keep ticket prices on a level with those in Chicago and New York.

Another factor that affects this sector is the employment status of the people who work in commercial theatre. Many of the technicians are unionized and negotiate contracts with the producer associations. Actors are considered "independent contractors" but they have a sophisticated organization, Canadian Actors Equity, that functions as a union for them. Recently, the federal government passed legislation that established a separate labour relations framework for a small number of artists and cultural organizations. The major actors' associations are now lobbying the provincial government to develop a formal labour relations framework for artists that would include bargaining rights, occupational health and safety, workers' compensation and benefits. Although it can fairly be argued that people working in the cultural industries should have the same protections as other workers, such a move would have a significant impact on production costs and methods.

Conclusion

The commercial theatre sector has experienced tremendous growth over the past five years. Its future is dependent upon its ability to continue to attract audiences from a very large geographic base. Commercial theatres' ability to grow is also dependent upon the development of additional small and mid-sized venues and by developing a long-term solution to the provincial 10 per cent admissions tax.

APPENDIX C - THE PROCESS FOR DEVELOPING THE STRATEGY

In the summer of 1993, the government mandated the Ministry of Culture, Tourism and Recreation to work with the cultural industries sector to develop a comprehensive strategy within the government's industrial policy.

In order to ensure broad and effective representation, the Advisory Committee on a Cultural Industries Sectoral Strategy (ACCISS) was established to develop and oversee a consultation process and to develop recommendations for industry and government consideration. ACCISS was made up of representatives from cultural industry firms, trade associations, labour unions, related sectors, and individual creators. Geographic representation across Ontario was also an important consideration.

A sub-committee structure consisting of six working groups was established. These were each chaired by a member of the Advisory Committee and included appropriate representatives from both the private and public sector. Each working group Chair was assigned the responsibility of exploring one of the following key topics:

- Production
- Domestic Marketing and Distribution
- Export and International Marketing
- Investment
- Regulations
- Training

The primary purpose of each working group was to research industry issues and opportunities related to its mandate and develop strategies and initiatives to increase the competitiveness of the cultural industries sector. The resulting recommendations were submitted to the Steering Committee for consideration.

The ACCISS Co-Chairs, six working group Chairs and the Secretary made up the ACCISS Steering Committee. The main responsibilities of the Steering Committee included the review of working group reports, development of a strategic vision and goals, identification of key recommendations, collection of input from other sector strategies, the regions and key government departments, and development of the final report.

The Advisory Committee gave direction to the Steering Committee throughout the process and was responsible for final approval of the recommendations.

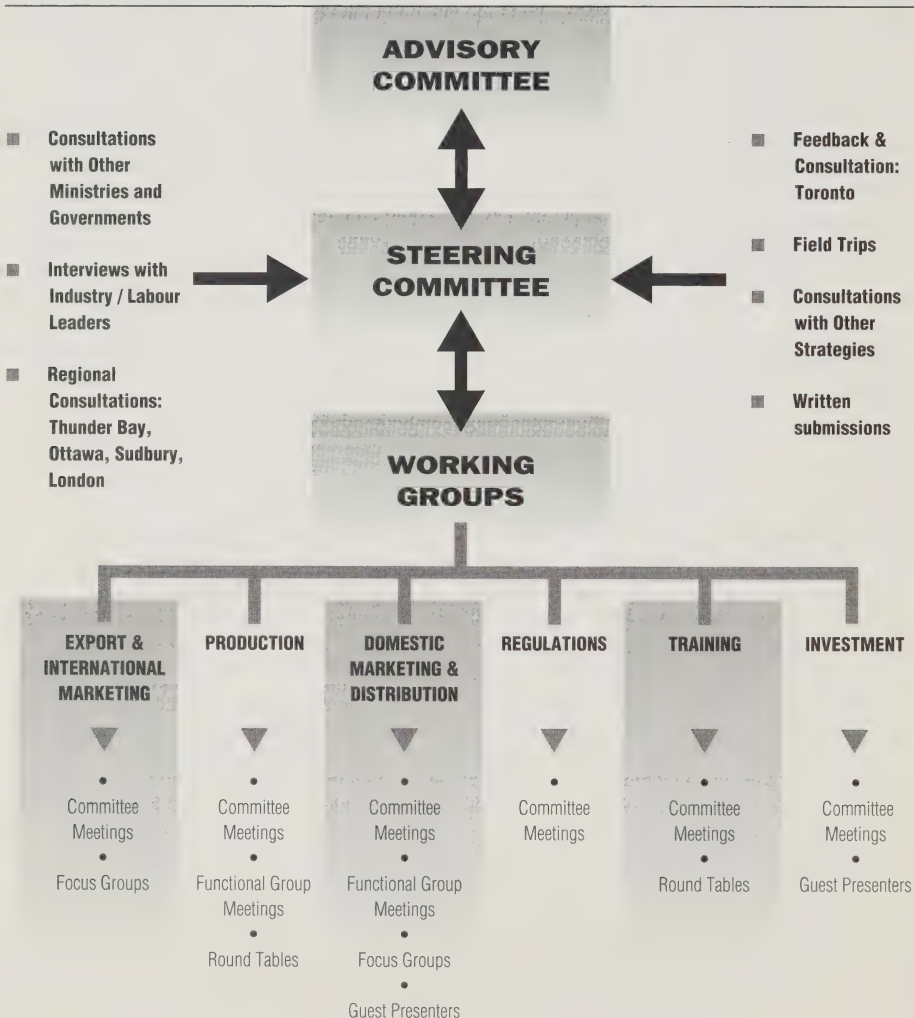
The development of a cultural industries sectoral strategy provided an opportunity for industry and government to develop a new understanding of strategic issues and opportunities cutting across sub-sectors and linking the sector as a whole. This cross-sectoral approach also reflected the growing convergence already taking place within the cultural industries. While the general approach was cross-sectoral, the process provided opportunities to incorporate sector-by-sector components at various points during the consultation process to ensure that the particular needs and circumstances of the various sub-sectors were heard.

In arriving at this report, ACCISS undertook an extensive and comprehensive consultation, incorporating a wide variety of methods to ensure a highly inclusive process. There were roundtables, discussion papers — one was distributed to over 350 individuals, organizations and companies — field trips, one-on-one interviews, regional hearings, written submissions, research studies, and formal committee work. The enormous task of sifting through the wealth of material generated by the process was the

responsibility of the Steering Committee. When the draft recommendations were ready, ACCISS once again went out to the industry to test the credibility of and support for the initiatives proposed. On the basis of

this consultation and discussion, ACCISS finalized a set of goals, objectives, and recommendations designed to position Ontario's cultural industries as leaders in the future economy.

ACCISS CONSULTATION: PARTNERS AND PROCESS



APPENDIX D - WORKING GROUPS AND ADDITIONAL PARTICIPANTS

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Marquis Records

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Jane Horrocks
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Richmond Hill Public Library

Jenny Lorentowics
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Mississauga Public Library

Elgin Wells
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APPENDIX E - CALCULATION OF PERFORMANCE OBJECTIVES

DRI Canada was hired to undertake research on behalf of ACCISS. Their research provided background information on the competitive status of the cultural industries, recent trends, and the sector's relationship to and impact upon the Ontario economy. Changes in the level of output, through the purchase of goods and services from other sectors, affect the level of activity in many other related industries. In addition, the consumer purchases of those employed in the cultural sectors, together with those of individuals supplying such sectors, further amplify the impact of the cultural industries. These effects can be measured through impact multipliers.

Definitions

In order to more clearly demonstrate these impacts, drawing on Statistics Canada's input-output measures for the Canadian economy, DRI Canada has estimated a set of impact multipliers for each of the cultural sectors. Depending on the specific objectives of the analysis, different impact multipliers for a variety of economic concepts can be estimated. For this study, DRI Canada focused on estimating the impact multipliers for:

- Domestic Output
- Wages and Salaries
- Value Added

Domestic Output is the broadest measure of economic activity. Therefore, impact multipliers for Domestic Output provide the most general assessment of the cultural industry's significance to the economy as a whole.

Wages and Salaries allow for the estimation of job generation throughout the economy, as the level of activity in the cultural industries changes.

Value Added provides a means for measuring how the net contribution of the cultural industries contributes to the wealth (value of goods and services) generated by the economy. This concept has special significance to the cultural industries, as it also reflects the creative contribution of those employed within it to the broader economy.

Types of Impact Multiplier

In addition to impact multipliers for different concepts, the multipliers themselves come in a variety of types:

- Direct and Indirect
- Direct, Indirect and Induced

The **Direct and Indirect** impact multipliers measure the effects of a change in output on both the cultural industries and on those industries from which they purchase goods and services.

The **Direct, Indirect and Induced** impact multipliers broaden the scope of the analysis to include the response of consumers and government.

In order to further refine the information, the researchers calculated the direct, indirect and induced economic impacts for each of the subsectors utilizing both open and closed multipliers. An open multiplier takes into account the negative impact that both government expenditures and imports play on the sector and the Ontario economy, while a closed multiplier holds these two factors constant, resulting in higher economic impact estimates. While utilizing

a closed multiplier would result in higher impact numbers, an open multiplier was used to calculate the performance objectives because of the important role that both imports and government activity play in the cultural industries.

The multipliers calculated for the sectors are provided below and they formed the basis for calculating the impact that meeting the performance objectives described in Chapter 1 would have in terms of direct jobs, total new jobs in the Ontario economy, increases in value-added activities and increases in economic output for the Ontario economy.

How each of the specific forecast outcomes were calculated is described below:

Direct New Jobs in Sector

The number of direct jobs was estimated by reviewing for each subsector the relationship between revenue and salary and wage expenditures as determined utilizing Statistics Canada data. By determining this relationship, estimates could then be made on the percentage of the additional revenue that would be spent on wages and salaries. By dividing this number by the average salary in the sector, an estimate on the number of direct jobs created could be made.

Total new jobs in the Ontario economy

The number of additional jobs that would be created by increases in activity within the sectors was calculated by multiplying the increase in revenue for the sector by the salary and wage multiplier and dividing this number by the average industrial wage for Ontario.

Increase in Value Added

This number was obtained by multiplying the increase in revenue for the sector by the value-added multiplier.

Increase in Economic Output

This number was calculated by multiplying the increase in revenue for the sector by the open direct, indirect and induced output multiplier that was developed for the sector. While a larger impact number would have been obtained utilizing a closed multiplier, it was felt that utilizing an open multiplier would more closely reflect the activity impacts that would occur on the Ontario economy.

Commercial Theatre Estimates

Since specific input/output models were not developed for the commercial theatre sector because of the lack of specific information, estimates related to larger performing arts impacts were extrapolated and utilized to determine the impact that increases in revenue for commercial theatre would have on the Ontario economy.

BOOK PUBLISHING

Type of Impact Modifier		Economic Concept		
Government and Imports		Domestic Output	Wages and Salaries	Value Added
Open	Direct and Indirect	1.6		
	Direct, Indirect and Induced	3.2	0.8	1.75
Closed	Direct and Indirect			
	Direct, Indirect and Induced	3.6		

PERIODICAL PUBLISHING

Type of Impact Modifier		Economic Concept		
Government and Imports		Domestic Output	Wages and Salaries	Value Added
Open	Direct and Indirect	1.55		
	Direct, Indirect and Induced	3.30	1.38	2.20
Closed	Direct and Indirect			
	Direct, Indirect and Induced	4.05		

SOUND RECORDING

Type of Impact Modifier		Economic Concept		
Government and Imports		Domestic Output	Wages and Salaries	Value Added
Open	Direct and Indirect	1.51		
	Direct, Indirect and Induced	2.70	0.59	1.25
Closed	Direct and Indirect			
	Direct, Indirect and Induced	3.60		

FILM AND VIDEO

Type of Impact Modifier		Economic Concept		
Government and Imports		Domestic Output	Wages and Salaries	Value Added
Open	Direct and Indirect	2.00		
	Direct, Indirect and Induced	3.30	0.55	1.10
Closed	Direct and Indirect			
	Direct, Indirect and Induced	4.40		

APPENDIX F - SOURCES AND SUGGESTED READING

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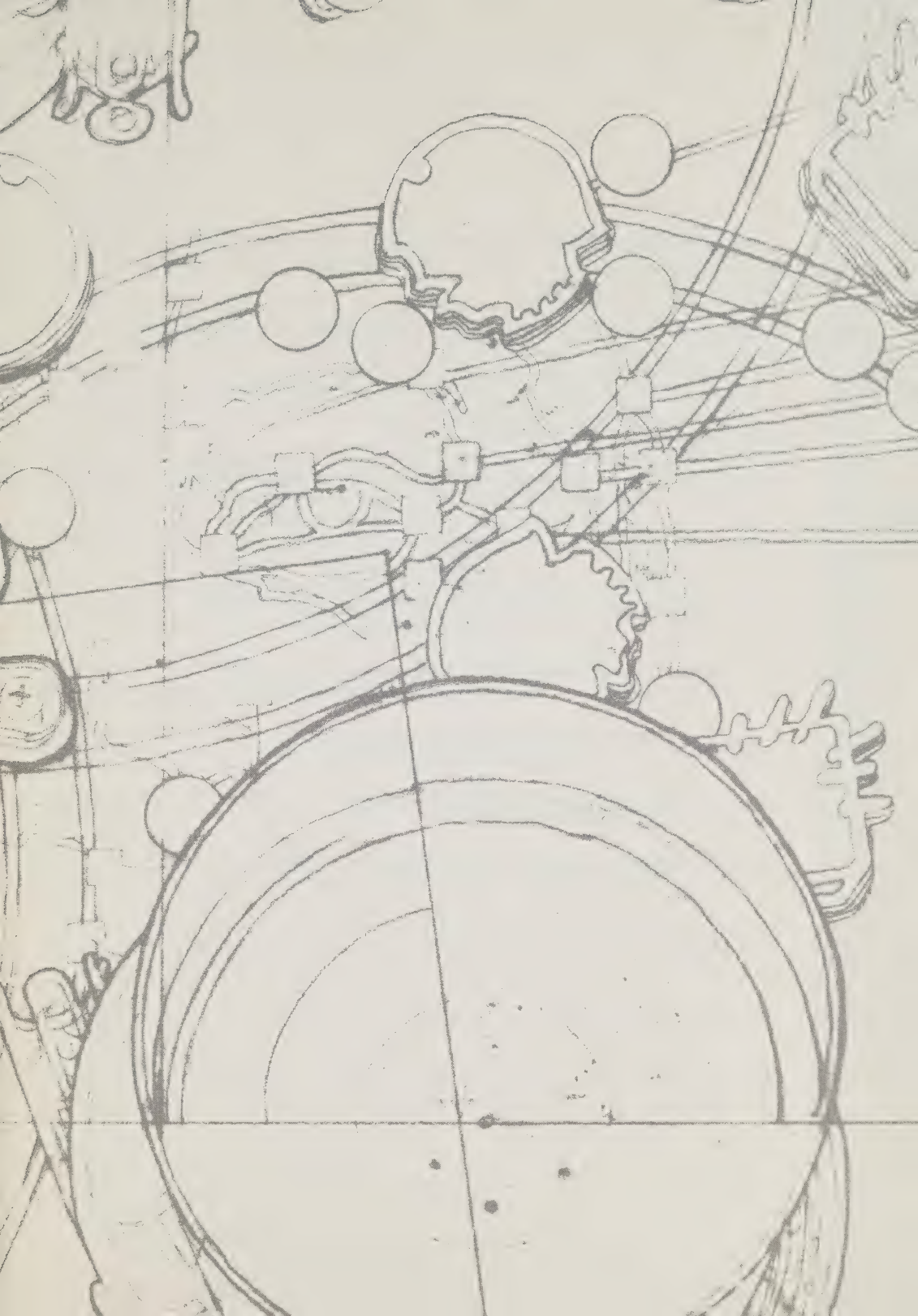
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